Chapter 3 Stocks, flows and accounting rules

A. Introduction

3.1 The SNA is a system of accounts designed to measure stocks of, and changes in, economic value and to identify the person, group of persons, legal or social entity with claims on the economic value. This chapter discusses the concept of stocks of economic value, the flows that reflect changes in economic value and the accounting rules applied to the recording of stocks and flows. In order to portray stocks and flows in an accounting system, it is necessary to identify the parties with a claim to economic value measured in stocks or affected by flows. These parties are the persons, groups of persons, legal and social entities already referred to. They are described as institutional units in the System and are grouped into institutional sectors according to their economic objectives, functions and behaviour. Units and sectors are the subject of chapter 4.

Aucune allusion au fait les les flux mettent en relation des unités, et certains stocks aussi (les actifs/passifs financiers).

1. Stocks and flows

3.4 Stocks are a position in, or holdings of, assets and liabilities at a point in time. The System records stocks in accounts, usually referred to as balance sheets, compiled at the beginning and end of the accounting period. However, stocks are connected with flows: they result from the accumulation of prior transactions and other flows, and they are changed by transactions and other flows in the period. They result in fact from a continuum of entries and withdrawals, with some changes in volume or in value occurring during the time a given asset or liability is held.

les comptes (balance sheets) ne sont pas compilés au début et à la fin: ils le sont <u>pour</u> le début et la fin

3.5 An asset is a store of value representing a benefit or series of benefits accruing to the economic owner by holding or using the entity over a period of time. It is a means of transferring value from one accounting period to another. An elaboration of this definition and the concepts embodied in it as well as a typology of the different assets in the System is given in Section B of this chapter.

Définition d'un actif: à vérifier.

Qu'est l'entity référencée dans la première phrase ?

Curieux de définir un actif comme comme un "means of transferring value from one accounting period to another". C'est vrai pour les instruments financiers et les inventories. Mais pour les actifs fixes ?

3.6 Values are recorded for non-financial assets, both produced and non-produced, and for financial assets and liabilities. The coverage of assets is limited to those assets used in economic activity and that are subject to ownership rights; thus for example, consumer durables and human capital, and also natural resources that are not owned, are excluded.

Que veut dire "economic activity" dans cette phrase ?

- soit on parle d'activité en général (il est dit quelque part que la consommation est une activité (vérifier que la phrase est toujours vraie en SCN08), et les consumer durables ne peuvent pas être exclus à ce titre,
- soit on fait référence à l'activité productive, et cela exclut alors les actifs financiers

3. Balancing items

3.10 Economic flows are grouped together into accounts with decreases in value (sometimes called debit entries, uses or changes in assets) on the left-hand side and increases in value (credit entries, resources, or changes in liabilities or net worth) on the right-hand side. A balancing item is an accounting construct obtained by subtracting the total value of the entries on one side of an account from the total value for the other side. It cannot be measured independently of the other entries; as a derived entry, it reflects the application of the general accounting rules to the specific entries on the two sides of the account. There is also a balancing item for the balance sheet where the difference between assets and liabilities is known as net worth.

Que c'est curieux de présenter les balancing items sans avoir présenté les comptes eux-mêmes au préalable ?

Terminologie : en CN, on n'utilise pas les temes "debit entries" et "credit entries". Etre plus descriptif. La bonne terminologie est présentée au SCN93 2.54-2.56.

3.11 Balancing items are constructed because they convey interesting economic information. Many of the key aggregates of the System, including GDP, actually emerge as balancing items. Balancing items are discussed in section D.

SCN93 1.3 est meilleur sur l'utilité des balancing items. Le GDP n'est pas un balancing item.

3. Grouping stocks and flows into accounts

3.12 The System's accounts and tables contain information relating to the economic actions or events that take place within a given period of time and the effect of these events on the stocks of assets and liabilities at the beginning and end of that period.

recopie approximative

- l'information se rapporte aux effets des événements, pas aux événements eux-mêmes
- il s'intéresse à l'effet des **actions et** des événements sur les stocks

3.14 The flows and stocks are entered in the accounts of the institutional units involved and, accordingly, in the accounts of the sectors into which the institutional units are grouped. In general, flows and stocks are entered in the accounts of the institutional units that own or owned the goods and assets involved, in the accounts of units that deliver or take delivery of services, or in the accounts of units that provide labour and capital or use them in production. For some purposes, an institutional unit participating in production is viewed as one or more establishments and establishments may be grouped into industries. Establishments and industries are defined and discussed in chapter 5.

curieuse façon de présenter les établissements comme des UI for some purposes ! en plus, on loupe l'essentiel, à savoir qu'on fait des comptes de flux pour les établissements et les industries

4. Accounting rules

3.17 The basic accounting framework of the System is one of quadruple accounting. To ensure consistency within it, the System applies rules with respect to valuation, timing, classification and grouping of flows and stocks. These rules, which are explained in more detail in section E in this chapter, are summarized below to provide a context for the discussion of the nature of stocks, flows, and balancing items in sections B , C and D.

(a) Flows and stocks must be recorded consistently with respect to their valuation. Entries are at current value on the market (that is, the amount agreed upon by two parties) or at its closest equivalent. The value on the market may need to be adjusted to the coverage of the flow or stock as defined in the System and expressed appropriately given the nature of the flow or stock with respect to taxes and subsidies on products, transport costs and trade margins.

(b) Flows and stocks must be recorded consistently with respect to timing. Flows are recorded at the moment of accrual within the accounting period (that is, the moment economic value is created, transformed, exchanged, transferred or extinguished). Stocks are recorded at the moment to which the account relates, typically the beginning or end of the accounting period.

(c) Individual flow and stock entries must be recorded consistently with respect to their classification, at a minimum, according to categories in the classifications of transactions, other flows and assets and according to the categories in the classification of transactors as (sub)sectors or industries.

(d) Depending on the character of the entry, a distinction should be made between resources and uses or between assets and liabilities. In the process of grouping, netting is implicit for several items, but consolidation is not advised.

il est dommage que ce § n'intervienne qu'ici, au lieu du début ; et que le 3.4 n'ait pas été retenu

B. Stocks

1. Benefits

3.18 The heart of the System describes how labour, capital and natural resources including land are used to produce goods and services. These goods and services are used for the three economic activities recognised in the System, production, consumption and accumulation. Benefits are defined as follows. Benefits are the means of acquiring goods and services for production, consumption or accumulation in the current period or in future periods.

3.19 Sometimes the immediate benefit is in terms of goods and services directly, for example own account production or wages and salaries in kind. More often a benefit is in the form of the medium of exchange (money), for example as wages and salaries. Consumption is an activity that takes place in the current period only but may be financed from past benefits. Production and accumulation involve benefits postponed to future periods. Thus, means of allowing benefits to be moved from one accounting period to another have to be recognised. These take the form of financial assets where a benefit in one period is converted to a benefit in one or more future periods. Similarly goods and services, or current benefits, may be acquired by committing future benefits in the form of financial liabilities.

2. Ownership

3.20 Two types of ownership can be distinguished, legal ownership and economic ownership. The legal owner of entities such as goods and services, natural resources, financial assets and liabilities is the institutional unit entitled in law and sustainable under the law to claim the benefits associated with the entities.

3.21 Sometimes government may claim legal ownership of an entity on behalf of the community at large. No entity that does not have a legal owner, either on an individual or collective basis, is recognised in the System.

3.22 The acts of production, consumption and accumulation involve varying degrees of risk. Two main forms of risk can be identified. The first sort refers to production. These arise because of such uncertainties as the demand for goods and services once produced, developments in the economy in general and technical innovation that affects the benefits to be earned from capital and natural resources. The consequence is that benefits from capital, natural resources and labour in the form of operating surplus and income from employment are not wholly predictable in advance, but embody a degree of risk.

3.23 The second type of risk refers to the process of transferring benefits between time periods. It arises because of uncertainty over interest rates in future periods, which in turn affects the comparative performance of different types of benefits.

3.24 When economic agents make decision about consumption or accumulation, they have to make a judgement about the relative advantages of benefits being converted to goods and services in the current period as against conversion in a later period. Thus all economic activity involves both benefits and risks. Transferring benefits between time periods inevitably involves transferring risks also. An agent may opt for a lower but more certain benefit in future rather than a benefit that might be higher but is less certain. Of particular interest is the case when an agent swaps benefits and risks associated with production with those associated with financial assets and liabilities.

3.25 The economic owner of an entity such as goods and services, natural resources, financial assets and liabilities is the institutional unit entitled to claim the benefits associated with the use of entity in the course of an economic activity by virtue of accepting the associated risks.

3.26 Every entity has both a legal owner and an economic owner, though in many cases, the economic owner and the legal owner of an entity are the same. Where they are not, the legal owner has handed responsibility for the risk involved in using the entity in an economic activity to the economic owner along with associated benefits. In return the legal owner accepts another package of risks and benefits from the economic owner.

3.27 When government claims legal ownership of an entity on behalf of the community at large, the benefits also accrue to the government on behalf of the community at large. Thus government is both the legal and economic owner of these entities.

3.28 The benefits inherent in financial assets and liabilities are seldom transferred from a legal owner to an economic owner in exactly the same state. They are usually transformed to new forms of financial assets and liabilities by the intermediation of a financial institution that assumes some of the risk and benefits while passing the balance on to other units.

3. The definition of an asset

3.29 Leading on from the above it is possible to define an asset as follows. An asset is a store of value representing a benefit or series of benefits accruing to the economic owner by holding or using the entity over a period of time. It is a means of transferring value from one accounting period to another.

3.30 All assets in the System are economic assets. Attributes such as reputation or skill, which are sometimes described in common parlance as an asset, are not recognised as such in the System because they are not economic in nature in the sense described under ownership.

4. Financial assets and liabilities

3.31 A particularly important mechanism in the economy is the device whereby one economic unit exchanges a particular set of benefits with another economic unit. Benefits are exchanged by means of payments. From this a financial claim can be defined.

3.32 A financial liability is established when one unit (the debtor) is obliged, under specific circumstances, to provide a payment or series of payments to another unit (the creditor). The most common circumstance in which a financial liability is established is a legally binding contract which specifies the terms and conditions of the payment(s) to be made and payment according to the contract is unconditional.

3.33 In addition, a financial liability may be established not by contract but by long and well-recognised custom that is not easily refuted. In these cases, the creditor has a valid expectation of payment, despite the lack of a legally binding contract. Such liabilities are called constructive liabilities.

3.34 Whenever either of these types of liability exists, there is a corresponding financial claim that the creditor has against the debtor. A financial claim is the payment or series of payments due to the creditor by the debtor under the terms of a financial liability. Like the liabilities, the claims are unconditional. In addition, a financial claim may exist that entitles the creditor to demand payment from the debtor but whereas the payment by the debtor is unconditional if demanded, the demand itself is discretionary on the part of the creditor.

3.35 Financial assets consist of all financial claims plus gold bullion held by monetary authorities as a reserve asset and shares in corporations. Gold bullion held by monetary authorities as a reserve asset is treated as a financial asset even though the holders do not have claim over other designated units. Shares are treated as financial assets by convention even though their holders do not have a fixed or predetermined monetary claim on the corporation.

5. The asset boundary and the first level classification of assets

3.36 All entities that meet the definition of an asset given above are included in the asset boundary of the System. Assets that are not financial assets are non-financial assets. Non-financial assets are further subdivided into those that are produced and those that are non-produced.

3.37 Because assets represent a store of future benefits, all assets can be represented by a monetary value. This value represents the market's view of the total of the benefits embodied by the asset. Where a direct market view of this value is not available, it must be approximated by other means. There is a discussion of this topic in chapter 11.

6. Entry and exit of assets from the balance sheet

3.38 All assets appear on the balance sheet of the economy. The first level of classification of assets is important since the process by which assets enter and leave the balance sheet differs for the three types of assets.

3.39 Produced non-financial assets come into being via the production process or as imports. Two exceptions exist. Historical monuments are included as produced assets even though they may have been constructed long before economic accounts existed. Occasionally a monument may be newly recognised as having value and thus enter the asset boundary as a produced asset other than through a current production process. Similar arguments apply to artefacts treated as valuables. Produced non-financial assets leave the asset boundary by being exhausted or by being sold to resident units that will not continue to use the asset in production as a source of future benefits or by being sold to nonresident units.

3.40 Non-produced non-financial assets are of three types; natural resources; contracts, leases and licences; and purchased goodwill and marketing assets.. The borderline determining which natural resources are considered assets and which are not depends on a number of factors described in chapter 10. Contracts, leases and licences may represent an asset to the holder when the agreement restricts the general use or supply of products covered by the agreement and thus enhances the benefits accruing to the party to the agreement beyond what would accrue in the case of unrestricted supply. These assets come into existence when the agreement is made and the enhanced benefits become apparent. They leave the balance sheet when the conditions restricting access are lifted or when there is no longer a benefit to be earned from having restricted access to the asset. Goodwill and marketing assets are only recognised as assets in the System when they are evidenced by a sale.

3.41 Financial assets and liabilities cease to exist when there is no longer a commitment for one unit to make payments to the other.

7. Exclusions from the asset boundary

3.42 Consumer durables are not regarded as assets in the System because the services they provide are not within the production boundary. Because the information on the stock of durables is of analytical interest, though, it is suggested that this information appear as a memorandum item in the balance sheet but not be integrated into the totals of the table.

3.43 Human capital is not treated by the System as an asset. It is difficult to envisage "ownership rights" in connection with people, and even if this were side-stepped, the question of valuation is not very tractable.

3.44 There are some environmental assets excluded from the SNA asset boundary. These are usually of the same type as those within the boundary but are of no economic value.

3.45 Although constructive liabilities are included, contingent financial liabilities, where there is no unconditional obligation for either party to the agreement to make a payment, are excluded.

3.46 When a decision is made on provisions and on one-off guarantees, there may be more text needed here to explain the position.

3.47 The only assets included in the asset boundary of an economy are those whose economic owners are resident in the economy. However, in the case of most natural resources and immobile fixed capital, which physically cannot leave the economy, a notional resident unit is established if the economic owner is technically a non-resident unit. In this way the assets in question do become those with resident economic owners and so are included within the asset boundary and are included on the balance sheet. Portable nonfinancial assets that are physically situated in an economy but are owned by nonresidents are excluded from the balance sheet; those that are physically situated in the rest of the world but owned by residents are included in the asset boundary.

C. Flows

1. Transactions

Monetary transactions

Rearrangements of transactions

Rerouting transactions

3.61 The recording of the payment of social security contributions is an example of the first kind of rerouting. In practice, employers typically deduct from the employee's wages and salaries the contributions that the employees are obliged to make to social security funds. In addition the employers make contributions to social security funds from their own resources on behalf of the employees. Both contributions go directly from the employer to social security funds. However, in the System, the employers' contributions are treated as part of compensation of employees and are recorded as being paid to the employee. The employee is then recorded as making a payment to social security funds consisting of both the employer's and employee's own contributions. Social security contributions are thus recorded strictly according to the general principles governing the recording of transactions in the System to bring out the economic substance behind arrangements adopted for administrative convenience. As a result of the rerouting, employers' social contributions are included as a part of labour cost.

revoir la rédaction de 93

3.63 Similarly, the property income earned on the reserves of certain life insurance funds is deemed to be paid out to policyholders and then paid back again as premium supplements even though in actuality the property income is retained by the insurance enterprises. As a result, the saving of persons or households includes the amount of the rerouted property income while the saving of insurance enterprises does not. This alternative picture of saving, which better reflects economic reality, is the purpose of the rerouting.

on ne pourrait pas étendre cette remarque à tous les produits financiers capitalisés ?

Partitioning transactions

3.66 The System's recording of transactions for wholesalers and retailers does not mirror the way in which those involved view them. The purchases of goods for resale by wholesalers and retailers are not recorded by these units explicitly, and they are viewed as selling, not the goods, but the services of storing and displaying a selection of goods in convenient locations and making them easily available for customers. This partitioning implements the System's measure of output for traders, which is by the value of the margins realised on goods they purchase for resale.

avoir ajouté « by these units » peut être misleading : le fait est que ces achats ne sont pas enregistrés du tout, alors que les commerçants le font en pratique

Units facilitating a transaction on behalf of other parties

ce titre est-il bon ?

Non-monetary transactions

3.72 Although two-party transactions in kind do exist in practice, in the System they are recorded as if they are a transfer in cash followed by cash expenditure on the item in question. This is necessary to ensure that there is a change in wealth of the donor without the donor acquiring the product transferred while the recipient acquires the product without any change in wealth. There is further discussion on this in respect of current transfers in chapter 9.

ce point est contestable : à revoir

Transfers in kind

3.76 As noted above, transactions in kind are recorded in the accounts as if they are transfers in cash followed by the expenditure by the recipient on the products concerned. This treatment applies to government international cooperation, gifts and charitable contributions. Government international cooperation, gifts, and charitable contributions are often made in kind for convenience, efficiency, or tax purposes. For example, international aid after a natural disaster may be more effective and delivered faster if made directly in the form of medicine, food, and shelter instead of money. Charitable contributions in kind sometimes avoid taxes that would be due if the item in question were sold and the money given to the charity.

3.77 The only reference in the System to transfers in kind is the special case of social transfers in kind. These consist of goods and services provided by general government and non-profit institutions serving households (NPISHs) that are delivered to individual households. Health and education services are the prime examples. Rather than provide a specified amount of money to be used to purchase medical and educational services, the services are often provided in kind to make sure that the need for the services is met.

3.78 Social transfers in kind are recorded as an implicit transfer of income from government and NPISHs to households and a transfer of consumption goods and services. The measure of income after the transfer is called adjusted disposable income (rather than disposable income) and the measure of consumption is called actual final consumption (rather than final consumption expenditure).

3.79 Adjusted disposable income for government and NPISHs is lower than disposable income and is higher than disposable income for households. Actual final consumption is also less than consumption expenditure for general government and NPISHs and greater than final consumption expenditure for households. The difference between adjusted disposable income and actual final consumption is exactly equal to the difference between disposable income and final consumption expenditure for each sector. Thus saving and wealth of all the units involved are unaffected in this case as with other transfers in kind.

tout ceci est à revoir :

- il y a incompréhension des transfers in kind,
- 3.77 va trop vite et ne fait pas la distinction entre D.631et D.632
- 3.78 et surtout 3.79 sont hors sujet

Internal transactions

3.80 The System treats as transactions certain kinds of actions within a unit to give a more analytically useful picture of final uses of output and of production. These transactions that involve only one unit are called internal, or intra-unit, transactions.

3.81 Some households, all NPISHs and general government units operate as both producers and as final consumers. When an institutional unit engages in both activities, it may make the choice to consume itself some or all of the output after the production is completed. In such a case, no transaction takes place between institutional units, but it is useful to construct a transaction and estimate its value to record both output and consumption in the accounts.

il est idiot de dire « some households » : avec les loyers imputés, c'est most households

3.82 For households, the principle in the System is that all goods produced by persons that are subsequently used by the same persons, or members of the same households, for purposes of final consumption are to be included in output in a manner analogous to that for goods sold on the market. This means that transactions are assumed in which the persons responsible for the production of the goods are deemed to deliver the goods to themselves as consumers, or members of their own households, and then values have to be associated with them in order to enter them in the accounts.

il faudrait étendre cet exemple aux loyers imputés, ce qui n'est pas fait en SNA93

Externalities and illegal actions

Externalities

3.86 Certain economic actions carried out by institutional units cause changes in the condition or circumstances of other units without their consent. These are externalities; they can be regarded as unsolicited services, or disservices, delivered without the agreement of the units affected. It is an uncooperative action, usually with undesirable consequences, which is the antithesis of a market transaction.

3.87 It is necessary to consider, however, whether values should be assigned to such externalities. Economic accounts have to measure economic functions such as production or consumption in the context of a particular legal and socio-economic system within which relative prices and costs are determined. Further, there would be considerable technical difficulties involved in trying to associate economically meaningful values with externalities when they are intrinsically non-market phenomena. As externalities are not market transactions into which institutional units enter of their own accord, there is no mechanism to ensure that the positive or negative values attached to externalities by the various parties involved would be mutually consistent. Moreover, accounts including values for externalities could not be interpreted as representing equilibrium, or economically sustainable, situations. If such values were to be replaced by actual payments the economic behaviour of the units involved would change, perhaps considerably.

3.88 A typical example is the pollution by one producer of the air or water used by other units for purposes of production or consumption. If the producer is allowed to pollute without charge or risk of being penalized, the private costs of production of the polluter will be less than the social costs to the community. Some countries, at least at certain points in their history, may choose to frame their laws so that some producers are permitted to reduce their private costs by polluting with impunity. This may be done deliberately to promote rapid industrialization, for example. The wisdom of such a policy may be highly questionable, especially in the long run, but it does not follow that it is appropriate or analytically useful for economic accounts to try to correct for presumed institutional failures of this kind by attributing costs to producers that society does not choose to recognize. For example, the whole purpose of trying to internalize some externalities by imposing taxes or other charges on the discharge of pollutants is to bring about a change in production methods to reduce pollution. A complete accounting for externalities would be extremely complex as it is not sufficient merely to introduce costs into the accounts of the producers but would also necessitate introducing various other adjustments of questionable economic significance to balance the accounts.

la version précédente (3.51 & ss), qui plaçait l'exemple au début, était meilleure, car moins abstraite

Illegal actions

3.90 Illegal actions that fit the characteristics of transactions (notably the characteristic that there is mutual agreement between the parties) are treated the same way as legal actions. The production or consumption of certain goods or services, such as narcotics, may be illegal but market transactions in such goods and services have to be recorded in the accounts. If expenditures on illegal goods or services by households were to be ignored on grounds of principle, household saving would be overestimated and households presumed to obtain assets that they do not in fact acquire. Clearly, the accounts as a whole are liable to be seriously distorted if monetary transactions that in fact take place are excluded. It may be difficult, or even impossible, to obtain data about illegal transactions, but in principle they should be included in the accounts if only to reduce error in other items, including balancing items.

critique du SNA93: cela ne distord pas nécessairement les comptes

2. Other flows

3.94 The entries for other flows appear in one of the two accounts that comprise the other changes in assets accounts. The other changes in the volume of assets account includes changes that lead to a change in value of an asset because of a change the quantity or physical characteristics of the asset in question. The revaluation account includes changes in the value of assets, liabilities, and net worth due to only changes in the level and structure of prices, which are reflected in holding gains and losses.

cette rédaction est meilleure

Other changes in the volume of assets

3.97 The second category relates to the effects of externalities. One such event is one institutional unit's effectively removing an asset from its owner without the owner's agreement, an action that is not considered a transaction because the element of mutual agreement is absent. These events also include those that destroy assets, such as natural disaster or war. In contrast, transactions, such as consumption of fixed capital or change in inventories, refer to normal rates of loss or damage.

il n'est pas sûr que le terme « externalités » s'applique aux catastrophes

D. Balancing items

3.101 A balancing item is an accounting construct obtained by subtracting the total value of the entries on one side of an account from the total value for the other side. It cannot be measured independently of the other entries; as a derived entry, it reflects the application of the general accounting rules to the specific entries on the two sides of the account. It does not relate to any specific set of transactions, or any set of assets, and so it cannot be expressed in terms of its own price or quantity units.

cette rédaction vient du SCN93 : mais elle est élargie aux comptes d'actifs ; d'où la référence aux actifs dans la dernière phrase. mais le partage volume/prix n'est pertinent que pour les flux (et encore !) ; il ne faut pas la transposer à la net worth (prix des passifs type loans or currency).

Balancing items in the flow accounts

3.102 Balancing items are not simply devices introduced to ensure that accounts balance. They encapsulate a great deal of information and include some of the most important entries in the accounts, as can be seen by the examples of balancing items for the accounts containing flows reproduced below:

- Value added/domestic product
- Operating surplus
- Disposable income
- Saving
- Net lending/net borrowing
- Current external balance.

même rédaction que le SNA93 : il n'est pas sûrqu'il faille mettre le PIB parmi les balancing items

Balancing items in the balance sheets

3.104 As well as net worth appearing as a stock level, changes in net worth due to different sorts of transactions and other flows may also be derived. Just as the changes in the levels of any asset can be traced through changes in transactions and other flows throughout the period, so changes in total net worth can be exhaustively described according to the transactions and other flows that led to changes in the total level of assets.

§ un peu mystérieux ; quid des changes in liabilities ; est-ce une réécriture du 3.4 ??

E. Accounting rules

3.105 As noted in the introduction, this section covers the quadruple entry accounting principle, valuation, time of recording, classification of accounting entries and grouping of transactions. The application of each of these to the individual flows and stocks is explained in detail in the chapters that describe the entries in the various tables and accounts of the central framework. This section aims to set out the basic rules underlying the System in respect of the quadruple entry accounting principle, valuation, time of recording and grouping of transactions. The details on classifications of accounting entries is discussed, account by account, in chapters 6 to 13.

c'est un peu répétitif : la 3° phrase répète la 1°, la 4° la deuxième

1. Quadruple-entry accounting

3.106 The accounting system underlying the System derives from broad book-keeping principles. To understand the accounting system for the System, three book-keeping principles can be distinguished:

Vertical double-entry book-keeping, also known as simply double-entry bookkeeping used in business accounting,

Horizontal double-entry book-keeping, and

Quadruple-entry book-keeping.

3.107 The main characteristic of vertical doubleentry book-keeping is that each transaction leads to at least two entries, traditionally referred to as a credit entry and a debit entry, in the books of the transactor. This principle ensures that the total of all credit entries and that of all debit entries for all transactions are equal, thus permitting a check on consistency of accounts for a single unit. Each transaction requires two entries.

3.108 Other flows have their counterpart entries directly in changes in net worth. As a result, vertical double-entry book-keeping ensures the fundamental identity of a unit's balance sheet, that is, the total value of assets equals the total value of liabilities plus net worth. The total value of the assets owned by an entity minus the total value of liabilities provides net worth.

3.109 The concept of horizontal double-entry book-keeping is useful for compiling accounts that reflect the mutual economic relationships between different institutional units in a consistent way. It implies that if unit A provides something to unit B, the accounts of both A and B show the transaction for the same amount: as a payment in A's account and as a receipt in B's account. Horizontal double-entry bookkeeping ensures the consistency of recording for each transaction category by counterparties. For example, dividends payable throughout the economy should be equal to dividends receivable throughout the economy once transactions with the rest of the world are taken in account.

3.110 The simultaneous application of both the vertical and horizontal double-entry bookkeeping results in a quadruple-entry bookkeeping, which is the accounting system underlying the recording in the System. It deals in a coherent way with multiple transactors or groups of transactors, each of which practices vertical double-entry bookkeeping. A single transaction between two counterparties thus gives rise to four entries. In contrast to business bookkeeping, national accounts deal with interactions among a multitude of units in parallel, and thus require special care from a consistency point of view. As a liability of one unit is mirrored in a financial asset of another unit, for instance, they should be identically valued, allocated in time and classified to avoid inconsistencies in aggregating balance sheets of units by sectors or for the total economy. The same is also true for all transactions and other flows that affect balance sheets of two counterparties.

3.111 The System uses the following conventions and terminologies for recording flows with the rest of the world. Since the rest of the world is viewed from the point of view of the domestic economy, imports to the economy of interest provide resources to the rest of the world and exports are a use of rest of the world resources. This is the reverse treatment to that used in the BPM6 where imports represent a debit for the domestic economy and exports a credit item. However, despite the reversal of the sides of the accounts on which items are shown, there is equality in coverage, measurement and classification between the two systems. This is discussed further in chapter 24.

2. Valuation

General rules

3.112 The power of the SNA as an analytical tool stems largely from its ability to link numerous, very varied economic phenomena by expressing them in a single accounting unit. The System does not attempt to determine the utility of the flows and stocks that come within its scope. Rather, it measures the current exchange value of the entries in the accounts in money terms, i.e., the values at which goods and other assets, services, labour or the provision of capital are in fact exchanged or else could be exchanged for cash (currency or transferable deposits).

Valuation of transactions

3.113 Market prices for transactions are defined as amounts of money that willing buyers pay to acquire something from willing sellers; the exchanges are made between independent parties and on the basis of commercial considerations only, sometimes called "at arm's length." Thus, according to this strict definition, a market price refers only to the price for one specific exchange under the stated conditions. A second exchange of an identical unit, even under circumstances that are almost exactly the same, could result in a different market price. A market price defined in this way is to be clearly distinguished from a price quoted in the market, a world market price, a going price, a fair market price, or any price that is intended to express the generality of prices for a class of supposedly identical exchanges rather than a price actually applying to a specific exchange. Furthermore, a market price should not necessarily be construed as equivalent to a free market price; that is, a market transaction should not be interpreted as occurring exclusively in a purely competitive market situation. In fact, a market transaction could take place in a monopolistic, monopsonistic, or any other market structure. Indeed, the market may be so narrow that it consists of the sole transaction of its kind between independent parties.

3.114 Actual exchange values in most cases will represent market prices as described in the preceding paragraph. Paragraphs 3.122-124 describe cases where actual exchange values do not represent market prices. Transactions that involve dumping and discounting represent market prices. Transaction prices for goods and services are inclusive of appropriate taxes and subsidies. A market price is the price payable by the buyer after taking into account any rebates, refunds, adjustments, etc. from the seller.

3.115 Transactions in financial assets and liabilities are recorded at the prices at which they are acquired or disposed of. Transactions in financial assets and liabilities should be recorded exclusive of any commissions, fees, and taxes whether charged explicitly, included in the purchaser's price, or deducted from the seller's proceeds. This is because both debtors and creditors should record the same amount for the same financial instrument. The commissions, fees, and taxes should be recorded separately from the transaction in the financial asset and liability, under appropriate categories. The valuation of financial instruments, which excludes commission charges, differs from the valuation of non-financial assets, which includes any costs of ownership transfer.

3.116 When market prices for transactions are not observable, valuation according to market-price-equivalents provides an approximation to market prices. In such cases, market prices of the same or similar items when such prices exist will provide a good basis for applying the principle of market prices. Generally, market prices should be taken from the markets where same or similar items are traded currently in sufficient numbers and in similar circumstances. If there is no appropriate market in which a particular good or service is currently traded, the valuation of a transaction involving that good or service may be derived from the market prices of similar goods and services by making adjustments for quality and other differences.

3.117 Some cases where market prices are not available or pose specific problems include barter transactions, provision of goods and services without a charge, and goods under a financial lease. If a buyer and a seller engage in a barter transaction the goods or services bartered should be valued at the prices that would have been received if the goods or services had been sold in the market. Similarly, a grant and donation in kind can be valued using the market price of the goods at the time of transfer. Cost of acquisition may also be used in certain situations, particularly when there is no time lag between the acquisition and the transfer. Acquisition of goods under a financial lease should be valued at market prices at the time of acquisition if such prices are available. In certain circumstances, it may be necessary to use the estimated written down current acquisition values of fixed assets or the present value of expected future returns.

3.118 Market valuation also poses problems for transactions in goods in which the contracts establish a quotation period often months after the goods have changed hands. In such cases, market value at the time of change of ownership should be estimated. The estimate should be revised with the actual market value, when known. Market value is given by the contract price even if it is unknown at the time of change of ownership.

3.119 When non-financial resources are provided without a quid pro quo, such resources should be valued at the market prices that would have been received if the resources had been sold in the market. The donor's view of the imputed value of the transaction will often be quite different from that of the recipient. The suggested rule of thumb is to use the value assigned by the donor as a basis for recording.

3.120 In some cases actual exchange values may not represent market prices. Examples are transactions involving transfer prices between affiliated enterprises, manipulative agreements with third parties, and certain non-commercial transactions, including concessional interest. Prices may be underor over-invoiced, in which case an assessment of a market-equivalent price needs to be made. Although adjustment should be made when actual exchange values do not represent market prices, this may not be practical in many cases. Adjusting the actual exchange values to reflect market prices will have consequences in other accounts. Therefore, when such adjustments are made, corresponding adjustments in other accounts should also be made, for example, if prices of goods are adjusted, associated income account and/or financial account transactions should also be adjusted.

3.121 Transfer pricing refers to the valuation of transactions between affiliated enterprises. In some cases, transfer pricing may be motivated by income distribution or equity build-ups or withdrawals. Replacing book values (transfer prices) with market-value equivalents is desirable in principle, when the distortions are large and when availability of data (such as adjustments by customs or tax officials or from partner economies) makes it feasible to do so. Selection of the best market-value equivalents to replace book values is an exercise calling for cautious and informed judgment.

3.122 The exchange of goods between affiliated enterprises may often be one that does not occur between independent parties (for example, specialized components that are usable only when incorporated in a finished product). Similarly, the exchange of services, such as management services and technical know-how, may have no near equivalents in the types of transactions in services that usually take place between independent parties. Thus, for transactions between affiliated parties, the determination of values comparable to market values may be difficult, and compilers may have no choice other than to accept valuations based on explicit costs incurred in production or any other values assigned by the enterprise.

3.123 While some non-commercial transactions, such as a grant in kind have no market price, other non-commercial transactions may take place at implied prices that include some element of grant or concession so that those prices also are not market prices. Examples of such transactions could include negotiated exchanges of goods between governments and government loans bearing lower interest rates than those with similar grace and repayment periods or other terms for purely commercial loans. Concessional lending is described in chapter 24. Transactions by general government bodies and private non-profit entities not engaged in purely commercial undertakings are often subject to non-commercial considerations. Transfers involving provision of goods and services may also be provided or received, however, by other sectors of the economy.

3.124 If there is no appropriate market from which the value of a particular nonmonetary flow or stock item can be taken by analogy, as a second best, its valuation could be derived from prices that are established in less closely related markets. Ultimately, some goods and services can only be valued by the amount that it would cost to produce them currently. Market and own-account goods and services valued in this way should include a mark-up that reflects the net operating surplus or mixed income attributable to the producer. For non-market goods and services produced by government units or NPISHs, however, no allowance should be made for any net operating surplus.

3.125 Sometimes it is necessary to value stocks at their estimated written down current acquisition values or production costs. The write-down should then include all changes which have occurred to the item since it was purchased or produced (such as consumption of fixed capital, partial depletion, exhaustion, degradation, unforeseen obsolescence, exceptional losses and other unanticipated events). The same method could be applied to non-monetary flows of existing assets.

3.126 If none of the methods mentioned above can be applied, flows and stocks may be recorded at the discounted present value of expected future returns. Although this method depends on making projections of future earnings and discount rates, it is theoretically sound as can often be verified for financial assets. If it is used for nonfinancial assets, some sensitivity testing of the assumptions made may be appropriate.

3.127 Flows and stocks concerning foreign currency are converted to their value in national currency at the rate prevailing at the moment they are entered in the accounts, i.e., the moment the transaction or other flow takes place or the moment to which the balance sheet applies. The midpoint between the buying and selling rate should be used so that any service charge is excluded. In conformity with the general rule, provision of assets, services, labour or capital in exchange for foreign cash is recorded at the actual exchange value agreed upon by the two parties to the transaction. The exchange value should then be converted to national currency at the midpoint rate prevailing at the time the transaction takes place. That moment may be different from the times the payments are made; as a result, the value in national currency of the transactions in question may differ from the value in national currency of the related payments when they take place.

3.128 Business accounts, tax returns and other administrative records are main sources of data for drawing up the national accounts. One should be aware, however, that none of these necessarily satisfies the valuation requirements of the System and that accordingly adjustments may have to be made. In particular, in the interest of prudence, business accounting often adopts valuations that are not appropriate for the national accounts. Similarly, valuations for tax purposes often serve objectives that differ from those of macroeconomic analysis. For example, the depreciation methods favoured in business accounting and those prescribed by tax authorities almost invariably deviate from the concept of consumption of fixed capital employed in the System.

Valuation of partitioned flows

3.129 Where a single payment refers to more than one transaction category (as they are defined in the System), the individual flows need to be recorded separately. In such a case, the total value of the individual transactions after partitioning must equal the market value of the exchange that actually occurred. For example, actual exchange values involving foreign currency include commission for currency conversion. The portion related to currency conversion should be recorded separately as transactions in services. As another example, the System recommends dividing interest transactions with financial enterprises between two transaction categories, one showing interest as understood in the System and the other representing the implicit payment for financial intermediation services.

3.130 Partitioning is not limited to transactions; an example is real holding gains, which are separated for analytical reasons from neutral holding gains that are simply proportionate to changes in the general price level.

3.131 In some cases partitioning is connected with deceptive behaviour. Values put on an invoice may deviate systematically or to such a large extent from the prices paid in the market for similar items that it must be presumed that the sums paid cover more than the specified transactions. An example is so-called transfer pricing: affiliated enterprises may set the prices of the transactions among themselves artificially high or low in order to effect an unspecified income payment or capital transfer. Such transactions should be made explicit if their value is considerable and would hinder a proper interpretation of the accounts.

3.132 A less obvious mingling of transactions occurs when the provision of an asset and the related money payment or payments do not take place simultaneously. When the time gap becomes unusually long and the amount of trade credit extended is very large, the conclusion may be that implicitly an interest fee has been charged. In such extreme cases, the actual payment or payments should be adjusted for accrued interest in order to arrive at the correct value of the asset transferred. Such adjustments are not recommended for normal trade credit.

Special valuations concerning products

3.133 Usually, the producer and the user of a given product perceive its value differently owing to the existence of taxes and subsidies on products, transport costs to be paid and the occurrence of trade margins. In order to keep as close as possible to the views of the economic transactors themselves, the System records all uses at purchasers' prices including these elements, but excludes them from the value of output of the product.

3.134 Output of products is recorded at basic prices. The basic price is defined as the amount receivable by the producer from the purchaser for a unit of good or service produced as output minus any tax payable and plus any subsidy receivable on the product as a consequence of its production or sale. It excludes any transport charges invoiced separately by the producer. If it proves impossible to obtain the required information at basic prices, output may be valued at producers' prices. The producer's price is defined as the amount receivable by the producer from the purchaser for a unit of a good or service produced as output minus any value added tax (VAT), or similar deductible tax, invoiced to the purchaser. It also excludes any transport charges invoiced separately by the producer.

3.135 Use of products is recorded at purchasers' prices. The purchaser's price is defined as the amount payable by the purchaser, excluding any deductible VAT or similar deductible tax, in order to take delivery of a unit of a good or service at the time and place required by the purchaser. The purchaser's price of a good includes any transport charges paid separately by the purchaser to take delivery at the required time and place.

3.136 The difference in value recorded for a product between when it is produced and the moment it is used for, say, final consumption expenditure can be considerable. Components of this difference may be:

(a) Taxes less subsidies on products payable by the producer;

(b) Trade and transport margins, including taxes less subsidies on products payable by wholesale and retail traders;

(c) Transport, including taxes less subsidies on products, paid separately by the consumer;

(d) Predictable quality increases producing additional output volume less current losses during storage;

(e) Holding gains while the product is with the producer and with wholesale and retail traders.

As one can see from the above, the difference between the original basic price and ultimate purchasers' price of a particular good encompasses both pure price and volume elements. In practice, of course, the estimates do not keep track of individual products but are made at a more global level for groups of products.

3.137 Imports and exports of goods are recorded in the System at border values. Total imports and exports of goods are valued free-on-board (f.o.b., that is, at the exporter's customs frontier). As it may not be possible to obtain f.o.b. values for detailed product breakdowns, the tables containing details on foreign trade show imports of goods valued at the importer's customs frontier (c.i.f., that is, cost, insurance and freight), supplemented with global adjustments to f.o.b. C.i.f. values include the insurance and freight charges incurred between the exporter's frontier and that of the importer. The value on the commercial invoice may of course differ from both of these.

3.138 As the overall balance of imports and exports must conform to actual circumstances, border valuation of goods has consequences for the recording of freight and insurance in the System. Usually, the values of both imports and exports for these service items have to be adapted to compensate for the special conventions on goods trade with the rest of the world. Further details on this treatment are in chapters XIV and XV.

Valuation of other flows

Other changes in the volumes of assets

3.139 In order to determine the valuation of the other changes in the volume of assets, it is usually necessary to value the asset before and after the change in volume and take the difference that is not explained by any transaction as the value of the other change.

3.140 Other changes in the volume of financial assets and liabilities are recorded at the market-equivalent prices of similar instruments. For writing-off of financial instruments that are valued at nominal values, the value recorded in the other changes in the volume of assets account should correspond to their nominal value prior to being written off. For all reclassifications of assets and liabilities, values of both the new and old instruments should be the same.

Holding gains and losses

3.141 Holding gains and losses accrue continuously and apply to both nonfinancial and financial assets and liabilities. In general, they are estimated by deducting from the total change in the value of assets those that can be attributed to transactions and to other changes in volumes.

3.142 Since financial assets and liabilities match, instrument by instrument, across the economy (including the rest of the world), it is important that holding gains in one are matched by holding losses in the other and vice versa. A holding gain occurs when an asset increases in value or a liability decreases in value; a holding loss occurs when an asset decreases in value or a liability increases in value. The value of holding gains and losses during an accounting period shows net changes in holding gains and holdings losses for an asset and a liability separately. In practice, the value of holding gains and losses are calculated for each asset and liability between two points in time: the beginning of the period or when the asset/liability is acquired/incurred and the end of the period or when the asset/liability is sold/extinguished.

Valuation of positions of financial assets and liabilities

3.143 Stocks of financial assets and liabilities should be valued as if they were acquired in market transactions on the balance sheet reporting date. Many financial assets are traded in markets on a regular basis and therefore can be valued by directly using the price quotations from these markets. If the financial markets are closed on the balance sheet date, the market prices that should be used in the valuation are those that prevailed on the closest preceding date when the markets were open. Debt securities have a current market value as well as a nominal value, and for some purposes supplementary data on the nominal values of positions of debt securities may be useful (see paragraph 3.146 below for definition of nominal value).

3.144 Valuation according to market-value equivalent is needed for valuing financial assets and liabilities that are not traded in financial markets or are traded only infrequently. For these assets and liabilities, it will be necessary to estimate fair values that, in effect, approximate market prices. The present value of future cash flows can also be used as an approximation to market prices, provided an appropriate discount rate can be used.

3.145 Market values, fair values, and nominal values should be distinguished from such notions as amortized values, face values, book values, and historic cost.

Fair value is a market-equivalent value. It is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. It thus represents an estimate of what could be obtained if the creditor had sold the financial claim.

Nominal value refers to the amount the debtor owes to the creditor, which comprises the outstanding principal amount including any accrued interest.

Amortized value reflects the amount at which the financial asset or liability was measured at initial recognition minus the principal repayments. Excess payments over the scheduled principal repayments reduce the amortized value whereas payments that are less than the scheduled principal repayments or scheduled interest increase the amortized value. On each scheduled date, amortized value is the same as nominal value, but it may differ from the nominal value on other dates due to the accrued interest being included in the nominal value.

Face value is the undiscounted amount of principal to be repaid.

Book value in business accounts generally refers to the value recorded in the enterprise's records. Book values may have different meanings because their values are influenced by timing of acquisition, company takeovers, frequency of revaluations, and tax and other regulations.

Historic cost, in its strict sense, reflects the cost at the time of acquisition, but sometimes it may also reflect occasional revaluations.

3.146 The valuation of financial assets and liabilities in data reported by enterprises or other respondents may be based on commercial, supervisory, tax, or other accounting standards that do not fully reflect the market prices of the assets and liabilities. In such cases, the data should be adjusted to reflect, as closely as possible, the market value of the financial assets and liabilities.

3. Time of recording

Choice of time of recording

3.147 When discussing timing in the System, an essential distinction should be made between stock data as recorded in balance sheets, on the one hand, and flow data as recorded in the accounts, on the other. Balance sheets, by definition, refer to specific points in time. In contrast, flows are aggregations, over some chosen accounting period, of individual transactions or other flows, which are themselves scattered over the accounting period.

3.148 Thus, the System does not show individual transactions or other flows, but there are two reasons why precise rules on their individual timing must be given. In the first place, rules have to be formulated to say in which accounting period the discrete flows are to be recorded. Secondly, an exact timing of individual flows within the accounting period is crucial to distinguish between changes in net worth due to transactions and changes due to holding gains or losses. This distinction is particularly important in situations of high inflation.

3.149 One of the problems in pinning down the timing of transactions is that activities of institutional units often extend over periods in which several important moments can be distinguished. For instance, many commercial sales commence with the signing of a contract between a seller and a buyer, encompass a date of delivery and a date or dates on which payments become due and are only completed as of the date the last payment is received by the seller. Each of these distinct moments in time is to some extent economically relevant.

3.150 Similarly, in analysing public spending one can distinguish the day that a budget is voted upon by the legislature, the day on which the ministry of finance authorizes a department to pay out specified funds, the day a particular commitment is entered into by the departments, the day deliveries take place and finally the day payment orders are issued and cheques are paid. With regard to taxes, for example, important moments are the day or the period in which the liability arises, the moment the tax liability is definitively assessed, the day that it becomes due for payment without penalty and the day the tax is actually paid or refunds are made.

3.151 Clearly, making entries for all successive stages discernible within the activities of institutional units, although theoretically possible, would severely overburden the System. A choice has to be made, recognizing (a) the needs of macroeconomic analysis, (b) microeconomic views, and (c) commonly available sources. Often, in this respect, a distinction is drawn between recording flows on a cash basis, due-for-payment basis, the commitment basis and accrual basis. There may be other timing bases, such as physical movement or administrative process, used in some data sources. The System recommends recording on an accrual basis throughout.

other timing bases: il s'agit de diverses versions de l'accrual

Choice for recording on an accrual basis

3.152 Cash accounting records only cash payments and records them at the times these payments occur. This method is widely used for certain business purposes. A practical advantage is the avoidance of problems connected with valuing nonmonetary flows. Yet, cash accounting cannot be used generally for economic and national accounting as the times at which payments take place may diverge significantly from the economic activities and transactions to which they relate and it is these underlying activities and transactions that the System seeks to portray. Moreover, cash recording cannot be applied to the many non-monetary flows included in the System.

il faut supprimer widely (qui ne s'appliquait qu'aux gouvernements)

3.153 Due-for-payment recording shows flows that give rise to cash payments at the latest times they can be paid without incurring additional charges or penalties and, in addition to these, actual cash payments at the moments they occur. The period of time (if any) between the moment a payment becomes due and the moment it is actually made is bridged by recording a receivable or a payable in the financial accounts. Due-for-payment recording furnishes a more comprehensive description of monetary flows than does cash accounting. A disadvantage is, of course, that the registration is still limited to monetary flows.

3.154 Accrual accounting records flows at the time economic value is created, transformed, exchanged, transferred or extinguished. This means that flows that imply a change of ownership are entered when ownership passes, services are recorded when provided, output at the time products are created and intermediate consumption when materials and supplies are being used. The System favours accrual accounting because:

(a) The timing of accrual accounting is in full agreement with the way economic activities and other flows are defined in the System. This agreement allows one, for instance, to evaluate the profitability of productive activities correctly (i.e., without the disturbing influence of leads and lags in cash flows) and to calculate a sector's net worth correctly at any point in time;

(b) Accrual accounting can be applied to non-monetary flows.

3.155 Many transactions, such as everyday purchases of households in shops, are monetary transactions in which some asset is delivered against immediate, or nearly immediate, payment in cash. In those instances there are no differences between the three methods discussed here. Accrual accounting is particularly relevant to the timing of various internal transactions (such as output that is added to the inventories of the producer), exchanges in which the parties deliver at differing times (such as sales with deferred payments) and obligatory transfers (taxes and flows connected with social security).

3.156 Usually, accrual accounting arises naturally to the institutional units involved. Numerous transactions consist of an exchange between two enterprises of, say, goods for financial assets. In such an exchange, accounting entries will be made in the books of each enterprise, showing the same dates for the acquisition of the goods and the surrender of the financial assets, on the one hand, and for the acquisition of the financial assets and the surrender of the goods, on the other. Sometimes, however, the two parties involved in a transaction will not perceive it as occurring at the same moment. Furthermore, some transactors, in particular government units, do not keep records of purchases on an accrual basis. In these cases, the rules of consistency in the System require that efforts should be undertaken to correct basic statistics for major deviations and flaws. The application of the general rule of recording on an accrual basis to the most common circumstances is discussed below.

Timing of exchanges and transfers

3.157 With respect to exchanges and transfers of non-financial assets, the accrual principle usually comes down to recording at the moment when the legal ownership of those assets changes hands. When change of ownership is not obvious, the moment of entering in the books of the transaction partners may be a good indication and, failing that, the moment when physical possession and control is acquired. These subsidiary rules apply in particular to internal transactions or when a change of ownership is taken to occur under a financial lease or hire-purchase arrangement. Imports and exports of goods are recorded when change of ownership occurs. In the absence of sources specifying the date on which ownership changes, there is a strong presumption that the goods will cross the frontiers of the countries concerned either shortly before or soon after the change of ownership takes place. Trade statistics based on customs documents reflecting the physical movement of goods across the national or customs frontier may therefore often be used as an approximation.

3.158 Services are recorded in the System when they are provided. Some services are special in the sense that they are characteristically supplied on a continuous basis. Examples are operating leasing, insurance and housing services (including those of owner-occupied dwellings). These services are recorded as provided continuously over the whole period the contract lasts or the dwelling is available.

3.159 Following the general rule, distributive transactions are recorded at the moment the related claims arise. As a result, for example, compensation of employees, interest, rent on land, social contributions and benefits are all registered in the period during which the amounts payable are built up. Equally, entries for taxes are made at the moment on which the underlying transactions or other flows occur that give rise to the liability to pay. This implies that taxes on products and imports are recorded at the times the products in question are produced, imported or sold, depending on the basis for taxation. Current taxes on income are recorded when the income to which they pertain is earned although taxes deducted at source may have to be recorded when they are deducted. With respect to some distributive transactions, the time of accrual depends on the unit's decision when to distribute income or make a transfer. The level of dividends is not unambiguously attributable to a particular earning period, and dividends are to be recorded as of the moment they are declared payable. Other examples are withdrawals from income of quasi-corporations and various voluntary transfers, which are recorded when effected.

3.160 Transactions in financial assets (including payments of cash) are recorded in the System on a change-of-ownership basis. Some financial claims/liabilities defined in the System, in particular trade credits and advances, are the implicit result of a nonfinancial transaction and do not involve an explicit piece of evidence. In these cases the financial claim is deemed to arise when its non-financial counterpart occurs. The same holds for financial transactions that the System records between a quasi-corporation and its owner.

3.161 Both parties involved in a financial transaction may record it at varying dates in their own books because they acquire the documents evidencing the transaction at different times. This variation is caused by the process of clearing, the time cheques are in the mail, etc. The amounts involved in such "float" are generally substantial in the case of transferable deposits and other accounts receivable and payable. Again, reasons of consistency require that the transactions are entered on the same date for both parties. If no precise date can be fixed on which the change of ownership occurs, the date on which the transaction is fully completed (thus the date on which the creditor receives his payment) is decisive.

3.162 For securities, the transaction date (that is, the time of the change in ownership of the securities) may precede the settlement date (that is, the time of the delivery of the securities). Both parties should record the transactions at the time ownership changes, not when the underlying financial asset is delivered. Any difference between transaction and settlement dates gives rise to accounts payable/receivable.

3.163 According to the accrual basis, repayments of debts are recorded when they are extinguished (such as when they are paid, or rescheduled, or forgiven by the creditor). When arrears occur, no transactions should be imputed, but the arrears should continue to be shown in the same instrument until the liability is extinguished. If the contract provided for a change in the characteristics of a financial instrument when it goes into arrears, this change should be recorded as a reclassification in the other changes in the financial assets and liabilities account. The reclassification applies to situations where the original contract remains, but the terms within it changes (for example, interest rates or repayment periods). If the contract is renegotiated or the nature of the instrument changes from one instrument category to another (for example, from bonds to equity), the consequences are to be recorded as new transactions.

Timing of output and intermediate consumption

3.164 The principle of recording on an accrual basis implies that output is recorded over the period in which the process of production takes place. Thus, additions to work-in-progress are recorded continuously as work proceeds. When the production process is terminated, the whole of the work-in-progress accumulated up to that point is effectively transformed into a stock of finished product ready for delivery or sale.

3.165 Similarly, the intermediate consumption of a good or service is recorded at the time when the good or service enters the process of production, as distinct from the time it was acquired by the producer.

Timing of changes in inventories and consumption of fixed capital

3.166 Inventories may be materials and supplies held as inputs by producers, output as yet unsold, or products held by wholesale and retail traders. In all cases, additions to inventories are recorded when products are purchased, produced or otherwise acquired. Deductions from inventories are recorded when products are sold, used up as intermediate consumption or otherwise relinquished.

3.167 The timing of consumption of fixed capital is nearly inseparably linked with the question of its valuation. Consumption of fixed capital is a cost category that accrues over the whole period the fixed asset in question is available for productive purposes. The exact proportioning to accounting periods depends on the rate of depreciation.

Timing of composite transactions and balancing items

3.168 Transactions that are measured as the balance of two or more other transactions follow the timing of the constituent basic flows. For example, financial intermediation services indirectly measured (FISIM) are entered according to the moments property income is earned on funds put out by financial intermediaries and interest payable by these units accrues. The same rule applies to balancing items.

3.169 In order to yield significant balancing items, the System aims at timing resources in the same period as related uses (and, in particular, at matching output with the various costs of production). However, due to the variety of transactions and other flows covered, each with its own characteristics, some thought is needed in interpreting balancing items. For instance, in analysing the balancing item "saving" of non-financial corporations, one should be aware that the time when the operating surplus arises does not necessarily tally with the timing of the other factors, such as when dividends are payable.

Timing of other flows

3.170 Other volume changes in assets are usually discrete events that accrue at precise moments or within fairly short periods of time. Changes in prices often have a more continuous character, particularly in respect of assets for which active markets exist. In practice, nominal holding gains or losses will be computed between two points in time:

(a) The moment at which:

- (i) The accounting period begins; or
- (ii) Ownership is acquired from other units (through purchase or a transaction in kind); or
- (iii) An asset is produced; and

(b) The moment at which:

- (iv) The accounting period ends; or
- (v) The ownership of an asset is relinquished (through sale or a transaction in kind); or
- (vi) An asset is consumed in the production process.

3.171 One may wonder why nominal holding gains and losses are not calculated over a period beginning at the moment on which two units agree to a mutual exchange of assets instead of the period that starts with the moment on which the assets are acquired. After all, does not the signing of the contract fix prices, implying that the risk for any later price changes is being transferred? The System, however, regards commitments resulting from a contract as contingent until one of the parties has performed its obligation (by passing the ownership of some asset to the other party, providing a service or providing labour or capital). Also, a unit can incur holding gains and losses exclusively on the assets or liabilities it effectively holds. The combination of these two rules implies that during the period between the signing of the contract and the date on which the first party delivers, the second party cannot incur any price risks on this contract: the second party neither owns the assets to be delivered nor owns a claim on the first party to be recorded in the financial accounts.

3.172 Changes in structure and classification should be entered at the very moment when, according to the rules adopted in the System, a unit or an asset comes into a different category than it was classified previously. An integrated stock-flow system like the SNA requires that all reclassifications be recorded. Consequently, such a system does not allow reclassifications between two consecutive accounting periods.

3.173 In order to obtain statistical series that are more comparable over time, one might be tempted to stockpile major reclassifications for a number of years and enter them as one block at the end of this period. However understandable this procedure might be, it does not conform to the System's recommendations, which aim at correct estimates on levels. Keeping records of reclassifications makes it possible in principle to reconstruct time series based on the situation in any accounting period.

Timing adjustments for international transactions

3.174 Differences in the time of recording by partner economies may occur due to various factors. One of the intrinsic problems in the international transactions is the difference in time zones. Differences in time of recording may also arise from delays in mail deliveries or settlement clearing processes. In most cases, data at some aggregate level rather than individual records are used in the compilation of international accounts. Several data sources may often only approximate the required basis. It is important to make timing adjustments where there are major divergences from the required basis.

3.175 In choosing among available statistical sources, compilers may wish to consider the advantage of using data for which the correct timing is already recorded. For example, records of actual drawings on loans are preferable to sources that quote authorization dates or program dates that may not be realized in fact. Some sources chosen by compilers as generally the most suitable may not have been specifically designed to yield information for balance of payments purposes.

Balance sheet items

3.176 Fundamentally, balance sheets can be drawn up at any point in time. The System defines balance sheets for all sectors at the moment when one accounting period ends and a new accounting period begins. The closing balance sheet of one period is identical to the opening balance sheet of the next one, so there remain no price changes, reclassifications or other economic flows that are not duly recognized by the System.

4. Aggregation, netting, consolidation

Aggregation

3.177 The immense number of individual transactions, other flows and assets within the scope of the SNA have to be arranged in a manageable number of analytically useful groups. In the System, such groups are constructed by crossing two or more classifications. As a minimum, a classification of institutional sectors or industries is crossed with the classification of transactions, other accumulation entries or assets. Additionally, resources must be distinguished from uses and assets from liabilities. In order to accommodate more detailed analysis, the classes thus generated may be further subdivided: examples are specifications of kind of product or asset, of function and of transaction partners.

3.178 Since the classifications in the System contain a number of levels made explicit in the codes, corresponding levels of aggregation may be distinguished.

3.179 Although conceptually the value for each aggregate is the sum of the values for all elementary items in the relevant category, in practice other estimation methods are frequently used. In the first place, information on elementary transactions, other flows and assets may be incomplete or even non-existent. Secondly, the data obtained from different primary sources are usually not fully consistent due to deviating definitions and varying coverage, and adjustments at aggregate level are necessary to reconcile them.

Netting

3.180 Individual units or sectors may have the same kind of transaction both as a use and as a resource (for example, they both pay and receive interest) and the same kind of financial instrument both as an asset and as a liability. Combinations in which all elementary items are shown for their full values are called gross recordings. Combinations whereby the values of some elementary items are offset against items on the other side of the account or which have an opposite sign are called net recordings.

3.181 The System recommends gross recording apart from the degree of netting that is inherent in the classifications themselves. In fact, netting is already a feature of many of the System's recommendations. It mostly serves to highlight an economically important property that is not apparent from gross data.

3.182 Netting is implicit in various transaction categories, the most outstanding example being "changes in inventories", which underlines the analytically significant aspect of overall capital formation rather than tracking daily additions and withdrawals. Similarly, with few exceptions, the financial account and other changes in assets accounts record increases in assets and in liabilities on a net basis, bringing out the final consequences of these types of flows at the end of the accounting period. All balancing items also involve netting. To avoid confusion, the System uses the words "gross" and "net" in a very restrictive sense. Apart from a few headings ("net premiums", "net equity of households on life insurance reserves and pension funds", "net worth and net lending/net borrowing"), the System's classifications employ the word "net" exclusively to indicate the value of variables after deduction of consumption of fixed capital.

3.183 In the case of the flows in financial assets and liabilities, the terms "net changes in assets" and "net changes in liabilities" are used to reflect the nature of the financial flows. Financial flows reflect changes due to all credit and debit entries during an accounting period. That is, financial flows are recorded on a net basis separately for each financial asset and liability. The use of the terms "net changes in assets" and "net changes in liabilities" brings the financial account into line with the convention used in the accumulation accounts. These are general terms that apply to both the financial account and other changes in financial assets and liabilities account. The use of these terms also simplifies the interpretation of data. For both assets and liabilities, a positive change indicates an increase in stocks and a negative change indicates a decrease in stocks. The interpretation of increase/decrease under the credit/debit notion, however, depends on whether the increase/decrease refers to assets or liabilities (a debit for an asset is an increase while a debit for a liability is a decrease). While the debit and credit presentation is not emphasized for the financial account transactions, it is important to recognize and maintain the accounting identities; for example, a credit is always conceptually matched with a corresponding debit, the latter relating to either an increase in an asset, or reduction in a liability.

Consolidation

3.184 Consolidation is a special kind of cancelling out of flows and stocks that should be distinguished from other kinds of netting. It involves the elimination of those transactions or debtor/creditor relationships which occur between two transactors belonging to the same institutional sector or sub-sector. Consolidation should not be seen as a sheer loss of information; it entails an elementary specification by the transaction partner. Consolidation may be most relevant for monetary institutions and general government. There is more detail on this in chapters 21 and 26. For certain kinds of analysis, information on the transactions of these (sub)sectors with other sectors and the corresponding "external" financial position is more significant than overall gross figures. As a rule, however, the entries in the System are not consolidated.

3.185 The rule of non-consolidation takes a special form regarding the transaction categories "output" and "intermediate consumption". These transactions are to be recorded throughout at the level of establishments. This implies specifically that the accounts for institutional sectors and for industries should not be consolidated in respect of output delivered between establishments belonging to the same institutional unit.

Wording issues

There are some wording issues : some may be simply mistakes, others refer to unclear statements, others may refer to a wording that may be hard to understand for non-native English speaking persons.

G. Types of pension schemes

17.114 penultimate sentence :

"participation being normally evidenced by the beneficiary or another on his behalf making qualifying contributions ~~have been made"~~

ultimate sentence :

"Social assistance is paid without qualifying contributions having been made <u>though</u> means-testing may be applied to applicants" : why does mean this "though" ? there is no opposition between the two satements.

17.117 3rd sentence :

"An employee's right to a pension under social security is often portable from one **<u>employee</u>** to another …"

It should be "employer", shouldn't it?

H. Social security pensions

17.121 4rd sentence :

"No liabilities for the scheme are recognised in the main accounts of the System **although concern is often expressed that benefits may exceed contributions and this situation is likely to worsen in an ageing population**"

The first part of the sentence is technical . The second part of the sentence has nothing to do with the first part; it is of the nature of the value judgment. Should liabilities be recognised only because benefits may exceed contributions ?

I. Employment related pension schemes other than social security

17.128 By presenting pension funds, this § introduces also a relevant distinction between pension schemes and pension funds. However, this distinction is not always followed in the chapter. Below is a list of § where there is a mistake in the use of the terms.

17.128 For both types of schemes, a pension fund is assumed to exist. For a defined contribution pension scheme, a fund must exist. For a defined benefit pension scheme a fund may exist in reality or it may be a notional fund. If it exists, it may be part of the same institutional unit as the employer, it may be a separate institutional unit (an autonomous pension ~~scheme~~ **fund**) or it may be part of another financial institution, either an insurance corporation or a multi-employer pension ~~scheme~~ **fund**. In describing the recording of transactions, transactions with the pension fund must be attributed to the sector where the fund is located.

1. Defined contribution pension schemes

17.128 last sentence: “In describing the recording of transactions …”

It is too short to make a reference to transactions. Balance sheet accounting entries are also, and specially, involved in this area.

so: “Transactions, assets and liabilities of and with the pension fund must be attributed …”.

17.131 Mid-§

“The investment income includes interest and dividends payable plus the distributed income of collective investment schemes if the pension fund holds shares in them. It is possible that the pension fund may own property and generate net operating surplus on this which is also included along with the investment income as being distributed to the pension beneficiaries.”

As it is, this § is misleading. The transaction “Investment income payable on pension entitlements” is not further broken down into interest, dividends, etc., as this sentence may lead the reader to understand it. It is paid by pension funds out of the amounts of interest, dividends, etc., that the pension fund earns on the investment assets that it owns as counterpart of pension provisions. It is a genuine transaction from the fund to the participants, it is not a rerouting of transactions through the fund.

“In this case, the term investment income is to be interpreted as being elastic enough to include this source of income if it exists.”

Same kind of remark. The term investment income has not to be elastic since, for the fund, the owned property is a source of income from which it distributes investment income payable on pension entitlements. It is a situation that is similar to the case of an ordinary corporation distributing dividends out of the income generated by the same kind of property: we should not speak of the elasticity of the dividend transaction in this case.

17.137-17.138 and associated table 17.7

1. First, it is not clear enough whether the transaction that is shown in the use of income account is called “Change in pension entitlements” or “Adjustment for change in pension entitlements”.

   While the former term seems to be used in the first sentence of § 17.137, reference is rather made to the latter in the last sentence of § 17.137 and in § 17.138. In Table 17.7, the heading “Change in pension entitlements” is shown in the Use of income account.

2. All in all, the expression “Adjustment for changes in pension entitlements” looks better. Why ?

   The rationale for this entry comes from two opposite constraints (the so-called dual recording):

   - the recording of contributions and benefits as income components, thus affecting the disposable income of households;

- the consistency with the recording of pension entitlements as financial assets of households.

This implies the introduction of an entry “after” disposable income and “before” saving. This entry corresponds to an adjustment rather than to an actual transaction: it is not really a transaction from the fund to participating households, even if it looks like from an accounting perspective.

In addition, the change in pension entitlements that is recorded in the financial account may not be fully explained by current transactions. There also may be capital transfers, especially from employers, that do not affect saving, but only net lending/borrowing. Although this is seldom, if ever, the case for defined contributions schemes, the adjustment transaction has a general purpose and is also relevant for defined benefit schemes, where capital transfers from employers are liable to occur.

In which case, there is no equality between the above transaction and the change in pension entitlements recorded in the financial account. To give similar names to the two transactions would therefore be misleading.

Capital transfers, when they occur, should not be included in the above adjustment (they would be recorded as such even in the absence of the so-called dual recording).

3. § 17.137.

   The rationale provided in this § is not exactly relevant. The rationale for the existence of the adjustment transaction is the choice made for a dual recording.

   It is a bit short to say that the increase (decrease) in pension entitlements, understood as an excess of contributions over benefits, affecting the net worth of households, has to be included in the households’ saving. This does not explain why there is a need for an adjustment transaction.

   The need for an adjustment transaction comes from the following facts:

   - in the current accounts, the increases that affect the net worth of households are the receipt of contributions from the employers through compensation of employees, and of property income from the fund; and the fact that households use these receipts for the acquisition of financial assets - the pension entitlements ; if there was not, in the secondary distribution of income account, a transaction chanelling these payments back to the fund as payment of contributions, including supplements, there would be no need of an adjustment transaction;
   - the decrease in pension entitlements due to the payment of benefits would have absolutely no impact on households’ net worth if these payments were only recorded as financial transactions; it is only because these payments are also recorded as non financial transactions that there is a need for an adjustment transaction.

4. In table 17.7, the transaction that is shown in the financial account is called “Change in pension entitlements”. This is not the practice usually followed to name financial transactions by the term “changes in …”. All transactions in the financial account refer to changes, actually in financial asset/liability positions. The normal practice is to give the same name to the financial transaction and to the corresponding asset/liability heading. Only the coding is different: F.x in the financial account, AF.x in balance sheets.

   So, the transaction in the financial account should be called : “Pension entitlements”. The explanation should be provided in the text, not in the table, that has to be a standard one.

   By the same token, it is not correct to say, as does § 17.138 : “The adjustment for the change in pension entitlements that is included in the use of income account as payable by the pension fund to households is shown in the financial account as payable by households to the pension fund.” Although the values are identical in the example, it is not the same transaction: the transaction in the use of income account is a non financial one, while the transaction in the financial account is a financial one [1]. If there was not a dual recording, the financial transaction would still exist, whereas the non financial adjustment transaction would disappear.

   In addition, in cases other than defined contribution schemes, the equality is not always observed, since there may be capital transfers that explain in part the change recorded in the financial account.

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1. In addition, it is not common to say that a financial transaction is “payable”.

This is an additional argument to call the non financial transaction an adjustment.

5. § 17.137

The following sentence:

> "Because much of the increase in the pension entitlement of participants in a defined contribution pension scheme, and thus ultimately the funding for the benefits, come from holding gains that are not included in the contribution supplements of participants in defined contribution pension schemes, the adjustment for the change in pension entitlements for these individuals will frequently be negative."

is far too elliptic.

For the national accountants of some countries, it may be an obvious statement stemming from the observation of existing pension funds that were established for a long time. It is not so obvious for national accountants less familiar with the existence of such funds, or working in countries where defined contribution pension schemes have been implemented recently, and are in an accumulation phase (in which case the adjustment is likely to be positive).

What is implicit in this statement is the following:

- the adjustment is negative when the withdrawal of benefits exceeds the additions of contributions - both actual ones and supplements - net of service charges;
- the level of benefits, by comparison with contributions, is partly due to the existence of accumulated holding gains, when the fund is largely equity-investment oriented, and when a large part of the returns on this investment take the form of holding gains, that are pecisely not included in the contribution supplements.

This should be made more explicit.

In addition, the existence of negative adjustments may also be simply due to demographic reasons.

It may be excessive to say that **the** funding of benefits comes from holding gains. Benefits are basically funded from contributions, including supplements.

5. Table 17.7

Preliminary remark: the exact status of the numerical example making up the table is not clear. It is certainly not only an illustration of the corresponding SNA transactions and other accounting entries. It seems more of the nature of an example the purpose of which is to explain the mechanisms at work in the accounting for defined contribution schemes. From that, it comes for instance that some entries do not fall exactly in the SNA classification.

This should be made more explicit. In addition, the example needs written explanations and comments, in order for it to be better understood.

One point that deserves some care in this respect relates to the balance sheet of the pension fund. There are two options:

- either a full set of accounts is compiled for the fund, including own assets, a net worth, and a full set of current and accumulation accounts (in reality, the output does not amount fully to operating surplus, for instance);
- or, only assets and liabilities that are relating to the entitlements of beneficiaries are shown, which raises the treatment of the output of the fund and of the balancing items that it implies.

Obviously, it is this second option that has been chosen, and so a kind of adjustment entry is created in order to eliminate the net worth generated by the output of the fund, and to show for the closing balance sheet only the assets/liabilities that are in relation with beneficiaries.

What is necessary at least is to clearly explain the choices that were made.

Following is a list of the entries that are not clear or that may be wrong.

1. Employers' actual pension contributions: they are explicitly shown as payable by employers to households, although they are no more and no less payable by employers than employees' ones. Both are in fact included under D.1-Compensation of employees.

   This has three undesirable effects:

   - there is a figure for employers' saving, that is unuseful: either the impact on employers' saving should be equal to the whole compensation of employees; or employers should not be shown in this table, which is better for defined contribution schemes;
   - the figure shown for households' saving - 15.6 - is not relevant: as far as only their transactions in respect of pensions are concerned, the saving for households is 27.1;
   - in order for the financial account to be balanced, there is an entry in this account for households under other financial assets (14.5), that seem to come from employers; however, the correct figure for other financial assets is 26.0, it comes from the transformation of former previous entitlements into cash or annuities, or in other financial instruments, as a counterpart of the payment of benefits;

   The relevant figures for households could stand as follows, saving being calculated in two ways:

   - either by considering the scheme as a saving one: neither contributions nor benefits appear in the secondary distribution of income account; the transactions that are in relation with the pension scheme are the following ones:

	employers actual contributions	14.0
+	employee actual contributions	11.5
+	property income payable on pension entitlements	3.0
=	primary income (in relation with pension scheme transactions)	28.5
=	disposable income	28.5
–	final consumption expenditure	1.4
=	saving (in relation with pension scheme transactions)	27.1
	=	
	acquisition of pension entitlements	27.1
–	disposal of pension entitlements	26.0
+	acquisition of other financial assets (cash, annuities)	26.0

   - or through a dual recording:

	employers actual contributions	14.0
+	employee actual contributions	11.5
+	property income payable on pension entitlements	3.0
=	primary income (in relation with pension scheme transactions)	28.5
–	contributions, net of service charge	27.1
+	benefits	26.0
=	disposable income	27.4
+	adjustment for change in pension entitlements	1.1
–	final consumption expenditure	1.4
=	saving (in relation with pension scheme transactions)	27.1
	=	
	acquisition of pension entitlements	27.1
–	disposal of pension entitlements	26.0
+	acquisition of other financial assets (cash, annuities)	26.0

   in which case the counterpart sector for the other financial assets would be "Other sectors"

2. It is surprising that the row for net borrowing/lending be not identical to the row for saving: the figure for other sectors is missing (although it is not very useful).

3. The row for increase in assets is hard to understand. While it is possible to understand that the total increase in assets for the fund is 2.5, why are there two counterpart sectors (employers and other) ? In fact, the counterpart sectors are other for 3.0 (property income), and households for - 0.5 (under the condition to record also that they receive actual contributions from employers).

4. The row “Less operating surplus = own funds” is hard to understand. This row may be understood as an adjustment, in order to show, for the fund, only assets relating to pension entitlements.

   Here, it is not clear why there is a counterpart in other sectors. Should it be understood as a holding loss ? Why ?

   All in all, with the explicit indication that the example refers to all transactions relating to pensions, it would be better to the show the appearance of a net worth for the fund, in relation with its output.

5. The heading “Tranfer of holding gains and losses to households” may be misleading.

   In the own accounting records of the fund, holding gains are actually attributed to participants through additions to pension provisions. However, this is not retained in national accounts transactions. Therefore, it is commonly accepted that the counterpart for the appearance of holding gains on funds’ assets should be accounted for as holding gains on pension entitlements for participants. It is not a transfer. At least the word “transfer” should be put between quotes.

   However, the recording of a transfer - a capital one - from the fund could have been thought of. But it is not the case.

6. In the non financial account, the total of the row “Change in pension entitlements” should be 0. It is not.

2. Defined benefit pension schemes

17.140 Reference is made in this § to the “benefit to the employee in the current period”. Although international accounting standards actually define employee benefits as “all forms of consideration given by an enterprise in exchange of services rendered by employees”, it is not usual in national accounting to make use of this terminology. Benefits, in the context of this chapter, is limited to the payments made by the shemes at time of retirement: this is certainly not what is aimes at here.

In addition, it is not clear what is referred to here from this § and the following:

- to the social contributions of the period ?
- to the changes in pension entitlements in the period ?

17.144 “A further basic difference between a defined benefit pension scheme and a defined contribution pension scheme concerns the payment for the cost of operating the pension scheme.”

Reference is made in this § to the “benefit to the employee in the current period”. Although international accounting standards actually define employee benefits as “all forms of consideration given by an enterprise in exchange of services rendered by employees”, it is not usual in national accounting to make use of this terminology. Benefits, in the context of this chapter, is limited to the payments made by the shemes at time of retirement: this is certainly not what is aimes at here.

Following is a list of the entries that are not clear or that may be wrong.

The same remark relating to the recording of employers' actual pension contributions hold as for the example referring to defined contribution schemes. The best is to record all social contributions received by employees as resources for households, under D.1-Compensation of employees.

The transactions for households are the following ones, with all the contributions received as resources in the allocation of primary income account (only the dual recording option is reproduced).

	employers actual contributions	10.0
+	employee actual contributions	1.5
+	imputed social contributions	4.1
=	compensation of employees	15.6
+	property income payable on pension entitlements	4.0
=	primary income (in relation with pension scheme transactions)	19.6
-	contributions, net of service charge	19.0
+	benefits	16.0
=	disposable income	16.6
–	final consumption expenditure	0.6
+	adjustment for change in pension entitlements	3.0
=	saving (in relation with pension scheme transactions)	19.0
	=	
	acquisition of pension entitlements	19.0
–	disposal of pension entitlements	16.0
+	acquisition of other financial assets (cash, annuities)	16.0

It is useful to compile also the accounts for the pension fund.

	output		0.6
+	investment income		2.2
–	property income payable on pension entitlements		4.0
=	primary income		– 1.2
+	contributions, net of service charge		19.0
–	benefits		16.0
=	disposable income	1.8	
–	adjustment for change in pension entitlements		3.0
=	saving		– 1.2
	=		
+	net acquisition of other financial assets (cash and equivalent)		– 2.3
+	acquisition of claims on employers (imputed contributions)		4.1
–	acquisition of pension entitlements (liabilities)		19.0
+	disposal of pension entitlements (liabilities)		16.0

Comments:

1. Net acquisition of other financial assets

   Three transactions are liable to provide cash for the pension fund. Together with the payment of benefits, they result in the following table of cash transactions:

	employers' actual contributions (including the payment for service charge)	10.0
+	employees' actual contributions	1.5
+	investment income	2.2
=	total receipts of cash	13.7
–	counterpart of the payment of benefits	16.0
=	net acquisition of cash	– 2.3

2. Analysis of saving

   The figure for saving may be broken down into two components:

   - the output of the fund, that results completely in net worth for the fund : 0.6
   - an amount of – 1.8, that is the overall balance of the transactions that relate to the operation of the scheme; this shortfall comes from the fact that the fund receives only 2.2 as investment income, whereas it pays out 4.0 as property income on pension entitlements to participants in the scheme.

   According to the explanations provided in § 17.166, this reduction of the value of the assets of the fund is swept away in the revaluation account in order for the net worth of the fund to be set at 0. This should not be completely the case. Let us change a bit the example:

   - assume first that there is no output of the fund: the saving would thus be equal to – 1.8
   - assume then that there is no holding gain on assets: the employer' liability on the fund would thus increase by 1.8
   - not all of this increase should occur through the revaluation account: in fact, it is logical to impute an interest to be paid by the employer to the fund in respect of the liability that the employer incurs towards the fund at the beginning of the period

- in order to calculate this amount of interest, it seems logical to apply to the outstanding amount of liability at the beginning of the period – 40.0 – the rate that is used as the discounting rate in the actuarial compilation of the entitlements of the participants: this would lead to record an amount of 0.9 to be payable by the employer to the fund, that would be added to the liability of the employer (up to 40.9)
- with this additional transaction, the saving of the fund would be reduced by the same amount; finally the shortfall of assets stemming from the transactions of the period would then be equal to – 0.9
- only this amount of – 0.9 would lead to an increase of the employer's liability to be recorded in the revaluation account
- it has to be noted that this shortfall of 0.9 is due to the fact that the rate of return on the assets held by the fund (1.7 %) is lower than the discount rate applied to past entitlements (2.3 %); if the rates were the same, the investment income would be 3.1, which, together with the imputed interest on the employer's liability, would balance the property income on pension entitlements: in this context, the employer's liability would increase only by the amount of imputed contributions

That a property income from the employer to the fund has to be imputed can be evidenced by considering a scheme that would be completely unfunded, and in which there would be no actual contribution. In this case, in parallel with the entitlements that would increase by the effect of both the current service and the past service, the employer's liability would increase under the effect of both the imputed contributions and the imputed interest on the employer's liability. The result would be that, at any point in time, the liability of the fund towards the participants – the pension entitlements – would be equal to the claim of the fund towards the employer, only under the effect of transactions, without any interference of the revaluation account.

This document includes the following parts:

Transversal topics

Chapter 07 – review

Chapter 08 – review

Chapter 09 - review

Transversal topics

Contents

A. Codification of current transfer transactions

Summary of the issue:

The draft SNA08 includes a complete recodification of current transfers, without the underlying transactions having been basically modified. This unexpected and late change was made without prior consultation of users and compilers. This is however not a minor topic. The purpose of this paper is to draw the attention on the fact that this change is not opportune, and that it would be better to come back to the present codification.

Of course, a negative answer without sound argument except the fact that it would be heavy to change back now the draft SNA volume would be irrelevant, since this unilateral change would oblige to morrow hundreds of people to change their tools and software without any actual necessity.

Background of the issue

In the last release of the final version of the draft chapters making up the first volume of the SNA08, careful readers can have taken knowledge of a change in the codification of the transactions that enter the heading of current transfers, such as they are recorded in the redistribution of income accounts. The relevant chapter is chapter 8.

At the higher levels of codification, that is at the 1/2-digit levels of the SNA93 classification, the transactions are shown in Table 1, with the codes they have in SNA93, and the codes that are attributed in SNA08.

Table 1: Current transfer transactions - respective codification in SNA93 and SNA08

SNA93 code	Transaction headings	SNA08 code	New heading
D.5	Current taxes on income, wealth, etc.	D51	
D.6	Social contributions and benefits		
D.61	Social contributions	D52	Net social contributions
D.62	Social benefits other than transfers in kind	D53	
D.63	Social transfers in kind	D6	
D.7	Other current transfers	D54	
D.71	Net non-life insurance premiums	D541	
D.72	Non-life insurance claims	D542	
D.73	Current transfers within general government	D543	
D.74	Current international cooperation	D544	
D.75	Miscellaneous current transfers	D545	

Measure of the numerical impact of the change

In order to get an idea about the amounts involved in the change, it is useful to have a glance at the impact on the basis of the numerical illustration that is shown in the background of the SNA93. This is done in Table 2 below.

It is relevant to consider data, not only through tables - all current transfers are actually shown in the same table -, but also by themselves, since they are also the object of analysis in the form of time series, or they are the topics of international comparisons.

It is interesting to examine the impact of the grouping of three main transactions on current transfers that appear on the uses side of the SNA national economy, that is *D.5-Current taxes on income*, *D.61-Social contributions* and *D.7-Other current transfers*. While each of them taken alone amounts to a figure that is around 200-300, they represent altogether an amount of 803, that is quite a half of the GDP.

Table 2: Values of transactions in the SNA93 numerical examples
SNA93 codification

GDP	1 854		
D.1	762		
D.2	235		
D.3	– 44		
D.4	391		
D.5	212		
D.61	322	D.62	332
D.7	269	D.63	228
D.5 + D.61 + D.7	803		
D.8	11		
D.9	62		

The point of view of users

For users, it is clear that *D.5-Current taxes on income* and the social transactions, which are presently grouped under D.6, are genuine transactions that they want to identify separately.

For other current transfers, grouped under D.7, the attention may be rather drawn on the 2-digit transactions. Analysts of the government transactions may be interested only in D.73, while people having interest on insurance relations will focus on D.71 and D.72.

Few people are interested in D.75 as such, and they will need sub-detailed data, at least at the 3-digit level, depending of their centre of interest.

To be short, very few people will be interested by the tables which, summarising the whole economy, will show the only 1-digit level of the SNA08 codification, with an amount of current transfers equal to the half of GDP, except for observing that modern economies are actually very redistributive !

In other words, all users will demand for data as they are shown presently at the 1-digit level. That means that they will want that at least Current taxes on income and all social transactions be shown separately. In which case, a good dissemination policy consists in building up a codification that is in agreement with public interest, since a codification is something which has sense by itself.

It is therefore necessary to keep the present classification and codification which show Taxes on income and Social transactions as genuine transactions, and not as sub-headings of a larger group.

In fact, the uniqueness of the group of Current transfers relies only on their technical accounting feature of being unrequited transactions, in a narrow sense, something which is largely of no concern for users.

It may be added that the policies in terms of consolidation among other current transfers may be so various between countries that the resulting figures are likely to be now not comparable.

The point of view of compilers

1. A national point of view

   National accountants speak codes, at home. That's a news.

   The current practice in the daily life of national accounts compilers is to call transactions also by their codes, and rather to use codes when they are on a hurry. That is a fact.

   SNA, in its 1993 version, has been implemented in a lot of countries since now 10 years. People are now accustomed to the names of many transactions, as well as to their codes. People may usually accept to change their habits, if they consider that the reality imposes that change. People are far more reluctant to change for changing. And it is a happy fact that, as far as distributive transactions are concerned, SNA08 does not change very much. So, why calling differently, since transactions are called by their codes, what does not actually change.

   And why changing all software to adapt them to the new codification, if felt useless ?

2. An international multi-linguistic point of view

   Most national accountants over the world are not native English speaking people. That's a news, too.

   However, they are more and more accustomed, obliged and happy to exchange with people from other countries. The only language that facilitates exchange is, most often, (international) English.

   In Europe, we have more than 25 languages, some very different from each other. It is likely to be more in Asian countries, for instance.

   In international discussions, which may take place at a very technical level, when speaking about national accounts conceptual as well as practical issues, it is very convenient to check common understanding of topics by specifying the codes of transactions. In addition, it can easily be understood that the pronunciation of « miscellaneous » is not uniform from Athens to Riga, which makes it therefore useful to check by D.75.

   The concern is that, in a foreign language, the most difficult thing to memorize and to pronounce quickly lies precisely in the numbers, especially when they are long. By experience, it appears that 2 digits is a maximum for a comfortable exchange. But D.75 (« seventy-five ») is proposed to be changed into D.545 (« five hundred and forty five »). Another good example is provided by D.73, which summarizes happily « Current transfers within general government », and is condemned to shift to D.543, which is impossible to memorize and to mobilize quickly.

B. Denomination of social contributions

Summary: the denomination of the sub-categories of social contributions in the secondary distribution of income account is unhappy, and should be changed.

As it seems that there are special problems for non-employees, it may be recalled that, basically, only their actual contributions need to be known. It is not necessary to identify the contribution supplements that should be specific to non-employees. The contribution supplements, by opposition to actual contributions, are paid by households in general.

The classification should therefore retain either the categories:

actual and imputed contributions

contribution supplements

or an alternative that would divide actual contributions between those paid by employers, those paid by employees, and those paid by self-employed and non-employed.

Background of the issue

The the draft SNA08 includes the following classification of social contributions, as they are shown in the secondary distribution of income account:

Net social contributions

Employers' actual social contributions

Employers' imputed social contributions

Household actual social contributions

Household contribution supplements

The denomination of the 3rd and 4th categories is not satisfactory and anti-pedagogical. Therefore it should be changed.

At least for one reason: as stated in § 8.77, all social contributions are recorded as being payable by households. This means that, when showing the details of the transaction: *Net social contributions*, the sub-headings will show households paying employers' contributions and household contributions.

In other words, households pay for them and for others !

Nobody will understand that.

Basic requirements for the recording of social contributions in the secondary distribution of income account

In the following, no difference is made between schemes, especially pension schemes, depending if their liabilities are recorded or not in the central framework. Implicit assumption is made that all schemes show liabilities towards participants. The RoW is neglected.

At least for a part of them, social contributions appear twice in the sequence of accounts:

- in the generation of income account, under Compensation of employees received by households
- in the secondary distribution of income account, as paid by households to the various social insurance schemes

What are the differences between the two total figures ?

Starting from the amount recorded as received by employees in the generation of income account, it is necessary:

- to add actual contributions of people who are not employees, i.e. self-employed and non-employed
- to add contribution supplements
- to subtract pension funds service charges

The only detail which is needed when showing the relations between households and insurance schemes in the secondary distribution of income account is basically the following:

- contributions: they are simply reported; at one point in time actual contributions paid by employees are paid by employees, it does not depend on the fact that the employees will be self-employed or non-employed to-morrow; the same for self-employed;
- contribution supplements: it is not necessary to know the categories who pay the contribution supplements; if all people were participants in defined contribution schemes, we would know the total stock of pension entitlements and the property income they generate, without any need to know who owns what and receives what
- service charges: same remark

There is no need to break down the contribution supplements among categories of participants or categories of actual and imputed contributions. In other words, there is no link to establish between types of actual contributions and contribution supplements. There is no more need to identify the self-employed, for instance, to allocate contribution supplements to them.

What is needed is the amount of pension entitlements and the property income they generate. Two situations may occur:

- either there is an actual fund, of a defined contribution type, and we have information on both entitlements and property income
- or there is not, or the funds are of a defined benefit type, and we have to estimate both entitlements and property income (unless for DB funds which follow specific prudential rules and which are able to provide adequate information), imputed contributions being then derived

Contributions by self-employed

What is needed in the case of self-employed ?

- their actual contributions
- the property income they receive

In many countries, self-employed have their separate insurance schemes. When the schemes are not of a social security type, they are likely to be defined contribution ones. In which case, there has potentially full information.

If one has contributed 10 years as self-employed but is no longer self-employed, he has accumulated entitlements that continue to generate property income. However, it is not necessary to identify these flows and to allocate them to self-employed. Contribution supplements are paid by households, that’ s it.

There may also exist some defined benefit schemes, probably with high prudential requirements.

When self-employed are participants to social security schemes, their actual contributions are necessarily identified separately, or they may be estimated by cross-checking of sources. For their pension entitlements and property income, it is necessary to use modelling as for all the social security. Their imputed contributions are then derived.

Contributions by non-employed

The situation is basically the same as for self-employed. Either they take individual insurance and they do not pay contributions. Or they take part to social security and it is necessary to use modelling.

Conclusion

Assuming that the information on flows relating to employees is available or can be estimated, the only specific need of information relating to self-employed or non-employed is the knowledge of their actual contributions, possibly by estimation, as usual.

For the other components, there is no need to identity separately which part of contribution supplements is due by self-employed or non-employed. At the limit, they enter in the modelling process.

The distinction between employers' contributions - actual and imputed - and employees' contributions is only needed in the generation of income account, because it is a feature of the working relationships. Instead, for the purpose of showing the redistribution process of social insurance and the financial relations between participants and schemes, this breakdown is not actually needed, nor is needed the breakdown between actual and imputed contributions. Nevertheless, it is current practice to isolate employers' contributions in the secondary distribution of income account.

All in all, the total actual contributions as well as the total contribution supplements should include the amounts paid in relation with positions and entitlements relating to the employment situation. If not, it is not possible to have consistency with the contributions recorded in the generation of income account, other than escaping completely the problem.

So, it is not good policy to hide them.

C. Non-life insurance claims

It is necessary to restore in the SNA08 the decision taken by the AEG in respect of of major catastrophes, consisting in tteating the transfers resulting from exceptional claims as capital transfers.

CH07 - review

This chapter raises the following issues:

A. Editorial issues

B. Points for clarification – apparent mistakes

C. Contentious issues

D. Important wording issues

E. Logical issues / mistakes

F. Small mistakes / wording issues

G. Questions relating to tables

A. Editorial issues

Main editorial concern about this chapter

The former section E-Operating surplus-mixed income has been deleted, and the involved paragraphs spread out in the introduction.

The result is that the headings “Operating surplus” and “Mixed income” do no longer appear, neither in the title of a section, or even as a sub-heading somewhere. As a consequence, these words are not shown in the detailed table of contents.

A reader who will want to know about operating surplus/mixed income will be obliged to use the index, which is strange for a prominent balancing item.

In addition, the developments about the operating surplus/mixed income being now merged inside the introduction, they loose a part of their relevance.

Proposal: at least, to change the sub-heading “The balancing item and GDP” into “Operating surplus/mixed income”. At a maximum, to restore the full section.

Editorial remarks on the chapter

1. The title of the chapter has been changed from “The primary distribution of income account” to the more simple “The distribution of income account”. Despite it may look more logical since “distribution” is now opposed to “redistribution” - that is now the title of chapter 8 - it is not so, because, basically, distribution includes redistribution. This is furthermore confirmed by § 8.1 of the present final draft chapter 8 that states:

   > “*This redistribution represents the second stage in the process of income distribution as shown in the accounts of the System*.”

   The drawback is that the word “primary” disappears from the heads of chapters, which is regrettable.

   In fact, “primary distribution”(chapter 7) opposed to “redistribution” (chapter 8) would be more explicit than the loose opposition between distribution and redistribution, that seems to deal with playing cards.

2. The presentation of the accounts (§ 7.1) refers to four accounts, although there exist only two accounts, with a possible disaggregation of the second one. The third and fourth accounts are in fact sub-accounts, making up a breakdown of the second account. In addition, this disaggregation being now introduced for some sectors only, it is not a general framework.

3. Compensation of employees

   The definition of compensation of employees is lost in the middle of the introduction.

   It is then recalled in the middle of § 7.36, that is included in the sub-section “Components of compensation of employees”.

   It would be better to provide the definition of the compensation of employees at the very beginning of the section “Compensation of employees”. The reader who reaches this heading through the table of contents expects to have a definition at the entry of the section, under the title B-Compensation of employees, and neither in the introduction – where the headings make no reference to the compensation of employees – nor 10 paragraphs after the beginning of the section, where the title of the sub-section - Components of compensation of employees – does not let understand that there is a definition there.

   In addition, the definition should be brought to the fore.

B. Points for clarification-apparent mistakes

There are two issues that deserve a re-examination:

- the measure of the entrepreneurial income, specially for financial corporations
- the content of the distributable income

Entrepreneurial income

7.23 Definition and measure of the entrepreneurial income. Content of the entrepreneurial income for financial corporations (see also comments on Table 7.3).

§ 7.23 indicates that entrepreneurial income is equal to:

  operating surplus
+ property income receivable
– interest and rents payable

This is the same definition as in SNA93.

However, the numerical example provided in SNA93 deducts D.44 – property income attributed to insurance policyholders - for financial corporations (insurance and pension funds, in fact), which looks like a change from the above definition.

In SNA08, according to § 7.23, the entrepreneurial income is calculated “before” the deduction of dividends, withdrawals from income of QC and investment income disbursements. This is in line with the above definition. The numerical example, reproduced in Table 7.3, confirms this interpretation, which leads, for financial corporations, to a higher level of entrepreneurial income than in the SNA93 numerical example.

However, one may wonder whether it is relevant to include investment income disbursements into the entrepreneurial income, which raises the issue of the content of this notion when applied to financial corporations:

- as far as insurance and pension funds are concerned, D.44 cannot be distributed to shareholders, since it is assigned to policyholders; consequently D.44 should be deducted from entrepreneurial income, if the latter is deemed to measure profit before distribution to shareholders and payment of taxes on income (abstraction made of receipt and payment of other transfers);
- this holds also for investment funds: although called shareholders of these funds, investors are more acting precisely as investors rather than owners of the funds; this seems to be the rationale for the classification of the property incomes generated by investment funds in the separate category of investment income disbursements rather than in the larger category of dividends; this is also the rationale for the distinction of investment fund shares from other shares. The actual owners of the funds, i.e. the units that have established them, take profits from the service they charge to investors, that may nevertheless depend on the performance of the funds themselves.

All in all, it seems that, for financial corporations, entrepreneurial income should rather be defined as :

  operating surplus
+ property income receivable
– interest and rents payable
– investment income disbursements payable

Distributable income

7.123 Content of the distributable income

The content of the distributable income is defined by reference to the entrepreneurial income. This raises an issue that has already been dealt with above in respect of the entrepreneurial income. It is a question of consistency.

If the distribution consists only of dividends, withdrawals of income of QC and reinvested earnings on FDI, it comes that the distributable income cannot include Investment income disbursements. Viewed from another point, retained earnings cannot include these investment income disbursements.

If the definition/content of the entrepreneurial income is not changed according to the suggestion made above, it is necessary to exclude explicitly investment income disbursements in the definition of distributable income.

7.123 Wording of the definition of the distributable income

Two observations:

- when writing “less all current transfers”, it should be specified “including any current taxes payable on the income, wealth, …”;
- it seems that the adjustment for pension entitlements has not to be added; it has to be subtracted (it should be : “less the adjustment …”); the adjustment item is the same for households and for pension funds, it is on the resource side for households, and on the uses side for pension funds.

7.123 Presentation of the distributable income

For the comfort of the reader, when an algebraic definition is provided, it would be better to do it according to a list, as follows:

	entrepreneurial income
plus	etc
less	etc

7.130 “Retained earnings of a corporation or quasi-corporation are equal to the distributable earnings less the dividends payable or withdrawal of income from the quasi-corporation respectively”

It is better to say “distributable **income**”. While retained and reinvested earnings are accepted terminology, to use “distributable earnings” instead of “distributable income” – that has been defined as such above in § 7.123 - could bring ambiguity and confusion in the reader’s mind, who can be unfamiliar with all these notions.

In addition, an explicit reference to the § where distributable income is defined would be welcome.

And a presentation according to a list would also be welcome.

C. Contentious issues

Entrepreneurial income: which sectors involved ?

7.23 "Entrepreneurial income is not calculated for other sectors"

Who decided that ? There was nothing proposed as such either during AEG meetings or in the written comments.

First, it has to be noted that, as it stands in SNA93, the purpose of the entrepreneurial income account is to identify the transactions and balancing items that relate to productive activities, whatever they may be (market, non-market or for own final use). It is not reduced to market activities, even if it is more relevant for market producers.

So, the reference to quasi-corporations is irrelevant.

The main drawback is for households. Of course, the identification of the assets relating to the entrepreneurial activity of households relies on assumptions. However, it may be useful to compile entrepreneurial income for households, specially when their market activity accounts for a substantial part of the whole economy.

The ability to identify the relevant assets does not imply the identification and separation of a quasi-corporation. The identification of quasi-corporations is not only an issue that deals with the technical ability to identify the relevant assets and flows. The most important feature of a quasi-corporation is that it behaves like a corporation.

Many unincorporated enterprises owned by households do not deserve to be treated as quasi-corporations, simply because the owners do not incorporate their enterprises on purpose. There is uniqueness of wealth between the owner and the enterprise.

All in all, the entrepreneurial income concept is more useful than the quasi-corporation concept.

7.24 If, according to 7.23, entrepreneurial income is calculated only for non-financial and financial corporations, it comes that the allocation of other primary income account is not relevant for other sectors. It can even not be compiled since the first entry – entrepreneurial income – is missing for them. Or at least, the allocation of other primary income cannot be considered an independent account.

Most of this § is therefore not relevant. The items referred to in a)-compensation of employees and b)-taxes and subsidies cannot be included as "remaining primary incomes" since they do not remain at all.

Item c is only relevant for unincorporated enterprises, for which § 7.23 excludes the compilation of entrepreneurial income accounts. For corporations, all property incomes receivables being included under the entrepreneurial income, this category is empty.

Finally, if § 7.23 holds, § 7.24 should be reformulated as follows:

- for sectors for which an entrepreneurial account is compiled: the allocation of other primary income account shows only property incomes that distribute income (dividends, withdrawals of income from QC, reinvested earnings);
- for sectors for which an entrepreneurial income is not compiled, the allocation of other primary income account is identical to the allocation of primary income account

Consequently, if this breakdown of the allocation of primary income account is optional – i.e. relevant for some sectors only -, it would be better, in the introduction, not to present the distribution of income account as consisting in 4 accounts. It consists in 2 accounts, with a possible breakdown of the second one for some sectors only.

Uncollected taxes

7.79 Mid-paragraph: this was an addition in the final version.

"For this reason the amounts of taxes to be recorded in the System are determined by the amounts due for payment only when evidenced by tax assessments, declarations or other instruments, such as sales invoices or customs declarations, that create liabilities in the form of clear obligations to pay on the part of taxpayers.
(In assessing the amount of tax accruing, care must be taken not to include tax unlikely ever to be collected)"

The sentence between brackets should be reworded and moved elsewhere:

- it is necessary to use an other word than the word "assess" if the sentence is intended to mean "estimate" or "compile"; "asess" could otherwise be understood to refer here to tax assessments, as just above mentioned; but assessments are assessments, they are made by tax authorities, and it is not the purpose of the SNA to provide guidance to tax authorities about what they have to assess;
- second, because the purpose of this § is only to indicate that the estimates of the amounts of taxes should be based only on economic events for which a tax assessment, or similar instrument, has been produced; it says no more than that. If there is no assessment, or equivalent, no tax has to be recorded in national accounts; for instance, no VAT has to be recorded if the underlying transaction is concealed to tax authorities so that there is never any tax assessment.

What is at stake afterwards is another issue: what to do on the basis of the existing assessments ? do national accountants have to include all amounts covered by tax assessments in the estimate of taxes to be recorded in national accounts ? The concern is that it is not an isolated issue. At least for some taxes, if the assessed amounts are not retained for their totality, it may be necessary to bring some adjustments, for instance on output, in order to keep the overall consistency of the accounts.

In other words, such an issue cannot be dealt only by the inclusion of the referred sentence. It would be better to add an extra § telling something as :

"When assessments make up the basis of the estimate of the amounts of taxes, they should be cleared of amounts unlikely ever to be collected. In this case, it may be necessary to bring some adjustments on other variables of the accounts, in order to preserve their overall consistency"

D. Important wording issues

Classification and codification of property incomes

Among property incomes, a distinction has been introduced between investment income and rents. This has some analytical interest.

One concern refers to the codification of these transactions. One, it has to be noted that the codification that is shown in the chapter is actually the codification of the SNA93, which cannot work any more since some transactions have been added.

The issue is that, if the above distinction – between investment income and rent – is introduced in the codification, this will lead to code dividends, for instance, with 4 digits – as D.4121 -, which is too much for a basic transaction.

The best would be, while introducing the distinction as an analytical one in the exposé, to keep quite the same codification as in SNA93, which would moreover be more comfortable for users who are largely familiar with the speaking language that deals with “D.41”, for instance. In other words, it would be better to not introduce the distinction at a first level of codification.

Investment income disbursements

The name of this transaction sounds strange:

- to describe these transactions as disbursements could imply that interest and dividends are not disbursements: to introduce “other” could avoid that;
- for non English-speaking people, the word “disbursements” calls in mind the idea of flows of cash, which is strange since, for most of them, these transactions do not involve cash at all.

7.13 Content of operating surplus / mixed income

The paragraph discusses the invariance of the operating surplus / mixed income to the fact that land is owned and to the financing of assets. It indicates that the amounts of interest and rent that are actually payable – explicit costs - are recorded in the allocation of primary income account.

For the understanding of the reader, it is necessary to bring the precision that the implicit costs – implicit rents on land owned and implicit interest on own funds - are not recorded at all, as this is made in SNA93 § 7.82.

It is not sufficient to indicate that these implicit costs are captured in estimates of capital services, that are not part of the central accounts.

7.27 Remuneration of self-employed

In the draft version, it was indicated that the remuneration of self-employed is part of mixed income, which is an useful indication. This precision disappeared in the present version, which is regrettable.

In general, mixed income is not well dealt with in this chapter.

Deletion of some useful SNA93 paragraphs

SNA93 § 7.9 indicates that the net operating surplus of non-market producers is nil. This is still the case in SNA08 since the proposal consisting of imputing capital services in the measure of non-market output was finally rejected.

It would therefore be useful to maintain this paragraph, all the more than such precision is not made in chapter 6, devoted to the production account.

SNA93 § 7.10 brings the precision that, following the way according to which inputs and outputs are valued, operating surplus and mixed income exclude any holding gains. It is a precision that it would be useful to keep, since it is a main feature of the System.

SNA93 § 7.36 explains why unfunded employee social benefits are not a form of individual remuneration. It is a useful precision for the understanding of the Compensation of employees.

E. Logical issues / mistakes

7.5 Last sentence

"Both compensation of employees and taxes on production may be payable by resident producers to non-residents or receivable by residents from non-resident producers"

Compensation of employees and taxes on production that are receivable from non-resident producers are not shown in the generation of income account that is dealt with here, but in the allocation of primary income account.

The generation of income account of non-resident producers is not shown at all.

Heading of sub-section A.1 : The balancing item and GDP

In addition to the comment about the fact that the balancing item is never named at the level of the various headings of the chapter, this title sounds strange, since the reference to GDP is not essential under this title, and constitutes only a small part.

7.10 Last sentence

"… and for domestic staff all value added is compensation of employees"

First, it would be better to write: " … for households employing paid domestic staff", since the mistake is often made to attribute the output to staff.

Second, it would be better to say that the activity generates no surplus. Many times, there are other taxes/subsidies on production on this activity (this has to be checked with the measure of the output of this activity in chapter 6).

7.17 resident and non-resident

The main idea is to explicitly indicate that some property income may be receivable by resident units from both resident and non-resident units: this is typically what is said in d):" Investment income receivable by the owners of financial assets from either resident or non-resident units".

The same precision should be brought for a)/compensation of employees and, possibly, b)/taxes-subsidies.

However, for a) and b), it is instead said that compensation of employees and taxes/subsidies may be receivable by non-resident households and government, respectively. This, although not wrong, is not actually shown in the accounts, that only show these transactions as receivable by the rest of the world, without any further precision.

7.79 Last sentence

"Some flexibility is permitted, however, as regards the time of recording of income taxes deducted at source"

This sentence is misplaced here, where only taxes on production are dealt with (income taxes deducted at source are not taxes on production).

F. Small mistakes / wording issues

7.2 6° sentence

"(less subsidies on production and imports")

should be replaced by : (less subsidies)

In the classification, the equivalent to the heading "Taxes on production and imports" is simply "Subsidies".

7.5 4° sentence (in bold)

"Taxes less subsidies on production …"

should be replaced by : Taxes, less subsidies, on products …, as above in the §.

7.15 2° sentence

"The allocation of income account …"

should be replaced by: "The allocation of primary income account …"

7.15 last sentence

same mistake as in 7.15

7.17 1°-2° sentence

"There are two kinds of income listed … . The first shows where …"

Does a kind of sthg **show** anything ?

7.12 2° sentence

"… the only difference between entrepreneurial income and the balance of primary incomes is that entrepreneurial income is measured before the payment of dividends the withdrawals of income from quasi-corporations and investment income disbursements"

insert a coma after "dividends"

"… the only difference between entrepreneurial income and the balance of primary incomes is that entrepreneurial income is measured before the payment of dividends**,** the withdrawals of income from quasi-corporations and investment income disbursements"

7.70 last sentence

"…the use of the terms "direct" and "indirect" taxes has fallen out of favour in economics and is **no longer used** in the System".

It should be better to say "is not used in the System": it was in SNA93 that, by difference with SNA68, it was relevant to say "no longer".

G. Questions relating to tables

Table 7.1

No figure is shown for taxes and subsidies by sector in the table, making the balancing items not understandable.

Table 7.2, and also Tables 7.5, 7.7, 7.8

The table is wrongly titled as “The **distribution** of primary income account”,

instead of “The **allocation** of primary income account”.

Table 7.3: the title of the first account is “Entrepreneurial **income** account”.

1. The property incomes that are shown in this table are not actually illustrative of the content of the entrepreneurial income, and of the distinction between entrepreneurial income and other primary income.

   Resources : all the receivable property incomes enter into the measure of the entrepreneurial income. In the table, only three of them are listed (D.41, D.43, D.45). The figure that is shown for the whole transaction D.4 is the good one, but it is not actually the sum of the three listed components.

   Uses: the text (§ 7.23) indicates that only interest and rent have to be deducted in order to calculate the entrepreneurial income. This is what is made in the table, for the entrepreneurial income account. However, the D.43 transaction is shown in the design of the account, which could imply that it is part of the items to be deducted.

   the property income transactions that are shown under uses in the allocation of other primary income account are not the ones that are relevant for the account of the sectors for which the entrepreneurial income is compiled:

   - transactions D.41 and D.45 are empty for these sectors
   - only D.42, D.43 and investment income attributed to investment fund shareholders are relevant for these sectors: the first and third ones are however not shown; D.44 is a problem (see discussion in B).
   - the total for D.4 is nevertheless the good one

2. The allocation of other primary income account: the list of the property income transactions that are shown under resources is not complete. The total for D.4 is the good one, but it is not the sum of the listed components.

Table 7.4

Under the heading for Table 7.4, it is the table 7.5 that has been duplicated.

Table 7.5

The detailed components of the compensation of employees paid by the Rest of the world are not shown in this Table, probably because they normally appear on the uses side of the Table, that is not reproduced here.

From the tables of the SNA93 book, from which the present numerical example is derived, it appears that the detailed components are not available. However, they should exist, even if this information may be difficult to collect.

Usually, in such cases, “0” are shown in order to mean that the case is possible but not available. This is what is made for the compensation paid to the RoW.

Their absence in the present table could lead readers to wrongly understand that there is no Employers’ social contributions from the RoW.

Usefulness and structure of Tables 7.4, 7.5, 7.6, 7.7 and 7.8

These tables are designed to focus on the detailed components of the relevant transactions, in order not to overload Tables 7.1 and 7.2, that show the general structure of the account.

However, these tables show too many things in addition to the information relating to the transaction under review: for instance, operating surplus, taxes, etc. are shown in Table 7.5, that is normally devoted to Compensation of employees only.

Of course, this may be viewed as a “zoom” on a specific transaction of the account. However, why not showing a **transaction account**, that is a table devoted only to compensation of employees, with details on components, and sectors paying and receiving.

At least, such a table would better fit the case of compensation of employees, a transaction that spans over two accounts (on the contrary, Tables 7.6 and 7.7 make up together quite a transaction account).

CH08 - review

This chapter raises some important concerns, of four types.

1. The presentation of the “social” transactions - that is social contributions, social benefits, social transfers in kind – is somehow confusing. Consistency with the relevant part of chapter 17 is not fully reached. This transversal issue is dealt with separately. Only editorial issues are dealt with here.

2. The treatment of transfers in kind is reconsidered by comparison with SNA93, in a too much excessive way, that finally gives the impression that there is a misunderstanding of this transaction. This creates confusion over this chapter, chapter 3, chapter 10, and also chapter 9. As a whole, this mistake, not so important in practice, has pedagogical drawbacks. It is necessary to restore the wording corresponding to the right treatment over all the chapters, and to reintroduce the idea that tansfers in kind do exist.

3. The codification of all current transfers under D.5 is very anti-pedagogical. This point is dealt with separately.

4. The heading of the transactions “Households’ actual social contributions” and “Households social contributions supplements” is unfortunate, and is based on not understandable rationales.

Contents

A. Editorial issues

Title of the chapter

The title of the chapter has been changed from “The secondary distribution of income accounts” to “The redistribution of income accounts”, which fits better the content of the chapter since the latter refers both to the secondary and what may be called the tertiary distribution processes.

However, following a remark made about the title of chapter 7, this new title provides a further argument for keeping the title of chapter 7 as “The primary distribution of income account” (or accounts), and not changing it for “The distribution of income accounts”. As said in § 8.1, “redistribution represents the second stage in the process of income distribution”, which implies that distribution includes redistribution. The title “The distribution of income accounts” for the only chapter 7 is therefore too large.

Main editorial concerns about this chapter

The main editorial concerns lie with the presentation of the social transactions (social benefits, social contributions, social transfers).

1. Structure of the A-Introduction

By difference with the SNA93 text, the Introduction includes, as a foreword before sub-sections, a rather long development devoted to social transactions (§§ 8.5-8.9).

There was actually a (small) problem in SNA93, where the whole of social transactions were first tackled in the Introduction under the heading of the sub-section 1 – The secondary distribution of income account -, although some of these transactions – i.e. part of the “in kind” ones - are shown in the redistribution of income in kind account.

However, if the purpose of the change introduced here was to solve this inconsistency, the result is not very convincing since benefits in kind are nevertheless dealt with in the sub-section that is devoted to the secondary distribution of income account (§ 8.18).

As a result, the foreword of the Introduction is a bit lengthy. For instance, what is said in §§ 8.5-8.7 is more or less repeated in 8.16-8.18 and also in Section D. §§ 8.6 and 8.63 are identical. The end of § 8.4 was enough, if, however, mention was also made of social assistance there.

The result is a very thick summary (§§ 8.5-8.9) of section D. It is too much or not enough, and not very well structured, 8.8 and 8.9 looking like the end of a list.

The best is to delete §§ 8.5 to 8.9.

2. Presentation of the social field: §§ 8.5-8.9 and 8.16-8.18

Any presentation of the social field, as recorded in the SNA through “social transactions”, should start by referring first to social benefits. It is the content of social benefits that define the scope of social transactions: social insurance and social assistance are then two different ways of allocation of social benefits.

This was the conception followed in SNA93. This is why social benefits are dealt with first in SNA93 § 8.7, before contributions in particular, and also in Section D, that starts by “Circumstances …”. In addition, SNA93 § 8.7 presents the first delineation to draw, i.e. between insurance and assistance.

This is also what is made in chapter 17. At least for consistency purposes, it is better to adopt this approach also in chapter 8. In fact, there is no reason for such a a development in chapter 17, from which section H (Basic definitions) of Part 2 should be extracted to put it in chapter 8. There would stay in chapter 17 only the technical accounting aspects.

Proposal:

There are two possibilities.

1. To stick to the SNA93 structure.
2. If it is really felt necessary to introduce the social transactions in first, it would be better to create a first sub-section devoted to social contributions and benefits, organised as follows:.
   - social benefits, in first place
   - social insurance vs. social assistance
   - inside social insurance (social security, others)
   - in cash vs. in kind

Other editorial issues about this chapter

Title of section B: Current transfers

The title should be changed into "Transfers", simply, as was the case in SNA93. At least, four reasons to do so:

- the section, as a whole, does not include the full description of all current transfers, that are described afterwards in sections C, E, F, G, H. On the contrary, this section deals with general issues about transfers
- an important sub-section, the first one in fact, is devoted to the - important - distinction between current and capital transfers
- the subsection 2, dealing with the recording of transfers, although including examples referring to current transfers, provides guidance for adapting the rules to cases of capital transfers
- in other chapters of the volume, reference is made to this chapter for illustrating the treatments of transfers in general

B. Substantial points, mistakes and wording issues

8.10 This paragraph contains a lot of mistakes, pleonasms and approximations.

See the proposed changes in Section: Transfers in kind

8.13 3rd sentence

> "Any amounts payable and not paid or receivable and not received are recorded in the financial account, most often under accounts receivable/payable"

3 mistakes:
1. Even the amounts paid and received are recorded in the financial account, under "cash" (currency and deposits)
2. Payable/receivable not paid/received are always recorded under F.8, not most often
3. The correct name is "Other accounts receivable/payable"

Suggested change: delete the sentence, that is not so useful, or: "Any amounts receivable and not received or payable and not paid are recorded under other accounts receivable/payable in the financial account"

8.33 see also the comments made in the section "Transfers in kind"

end of 1st sentence: reintroduce the distinction between transfers in cash and transfers in kind (see section: "Transfers in kind")

end of paragraph: it is necessary to restore the end of SNA93 § 8.28

> "The entitlement to contingent benefits or collective services cannot be treated as if it were itself some kind of asset that could be valued and recorded in the accounts. Hence, items such as non-life insurance premiums, social insurance contributions and taxes are treated in the accounts as transfers."

It is the idea that the unit that makes the transfer does not receive, as a counterpart of its payment, anything that may be considered as an asset that is decisive to decide that this is a transfer (by difference with what is said in § 8.35, for instance).

8.35 middle and end of the paragraph; arguments provided are not very relevant

> "For life insurance, the insurance corporation manages funds on behalf of a named household."

It is doubtful that life insurance companies manage funds on behalf of a named household. Contracts are individual. The management of funds is collective.

> "There is relatively little redistribution among the various households holding similar policies and each household is able to predict with a reasonable degree of certainty what they will receive and when."

Life insurance is, on the contrary, an actual redistribution process, between surviving participants and dead participants. Mortality tables are crucial in life insurance, and all the design of policies relies on death assumptions. Households are indeed able to predict what they receive, under the condition that they survive.

> "Such policies therefore constitute the acquisition and disposal of financial assets and are recorded as such in the financial accounts of the System as components of the change in the life insurance and annuities entitlement."

Even if the contracts are nominative, it does not seem correct to conclude that the insurance corporation has individual liabilities towards policyholders. These liabilities are not certain, but expected. That is why they are treated as provisions rather than debt instruments. The claim/liability relationship can only be assessed at the level of the group of policyholders.

Finally, we record life insurance provisions as claims of households for two reasons:

- because, for insured/investors, life insurance contracts are close substitute to other financial instruments
- because the community of participants has an actual claim on life insurance enterprises (but it is hard to say that participants have claims individually)

What is said in SNA93 § 8.29, that is more descriptive, if finally more convincing.

8.36 puzzling paragraph

> "It could be argued that pension schemes function in a manner similar to life insurance schemes and that they should be treated as savings schemes of individual households."

OK

> "There are three reasons in the System why the designation of social insurance scheme is used to cover employment-related pensions, a designation that brings with it the recording of contributions and benefits as transfers."

This is a strange sentence, which seems very abstract. What does "a designation that brings with it" mean ? If the purpose is to explain that pension flows are treated as contributions and benefits, it would be better to be more explicit.

> "The first is that social security is essentially a process of redistribution across a wide section of the population with many individuals contributing so that those in need may benefit."

From that, it can be understood that social security pensions schemes are treated as contributions and benefits. What else [1]? What about social insurance schemes that are not social security ?

> "A second reason is that pensions provide a regular and stable source of funding post-retirement. In other economic applications, such as surveys of income and expenditure, pensions are regarded as income rather than dis-saving."

OK

> " The third reason for treating pensions as income rather than dis-saving is that they frequently cease when the pensioner (or survivor) dies. In this pension entitlements are distinct from other financial assets that are unaffected by the death of the owner."

????????

All in all, SNA93 § 8.30 is more modest, descriptive and convincing. It would be better to restore it, after adaptation to the new treatment of pensions in SNA08. It is in particular necessary to indicate that, when households' entitlements are recognised as assets in the accounts, pensions and contributions are treated in two parallel ways:

- as distributive transactions
- as acquisition/disposal of financial assets

which implies the introduction of an adjustment transaction. This is the so-called dual recording.

> SNA93 § 8.30: "Households participating in funded pension schemes also own the pension reserves so that, in principle, pension contributions and benefits should also be treated in the same way as life insurance premiums and benefits. However, because the payment of pension contributions and the receipt of pensions are widely perceived by the households concerned and others as being transfers, and to avoid treating them differently from state pensions received under social security schemes, they are recorded in the secondary distribution of income accounts as if they were current transfers. In consequence, it is necessary to introduce an adjustment item in the use of income account (see Introduction to chapter IX) in order to ensure overall consistency between the income accounts and the financial accounts of the System."

1. George Clooney [Nespresso advertisement, 2007].

8.40

> "The ways in which transfers (whether in cash or in kind) and social transfers in kind are recorded are shown below in the following examples"

It is not logical to oppose transfers and social transfers in kind, since both are transfers.

2 solutions:

- either: "The ways in which transfers are recorded are shown below in the following examples"
- or: "The ways in which transfers in cash and transfers in kind, including social transfers in kind, are recorded are shown below in the following examples"

8.49 There seems to be a misunderstanding of the recording of social transfers in kind (or, at least a misleading explanation).

> "Under the <u>normal</u> **1** recording in the System, four entries would be required showing the sale of the medicine by the enterprise and the purchase as final consumption expenditure of government with consequences for the financial accounts for both units. The purchase would be recorded as consumption expenditure by government. When <u>explicitly recording social transfers in kind</u> **2**, the <u>entry for the consumption expenditure by government is replaced</u> **3** <u>by two entries for the social transfers in kind and one for actual consumption by households</u> **4**. The entries for the financial account remain as under the normal recording of government purchases **5**"

1. There is no normal recording, nor there is abnormal recording. What is referred to here is the recording in the use of income account, as final consumption expenditure, and the counterpart entries in the financial account.

2. What is "to explicitly record social transfers in kind" ? What would be an implicit recording ?

3. The entry for the consumption expenditure by government is not replaced by anything, and certainly not by social transfers in kind.

There is a sequence that is

Secondary distribution of income account / Disposable income
x
Use of income account / Final consumption expenditure

that is followed by a second sequence

Redistribution of income in kind account / Adjusted disposable income
x
Use of adjusted disposable income account / Actual final consumption

4. In this succession, there are four entries, which lead to four adjusted figures:

- for the government/NPISH: a social transfer in kind on the uses side, and a negative consumption position on the uses side too
- for the households: a social transfer in kind on the resources side, and a positive consumption position on the uses side

After that, the resulting positions relating to income and to consumption change their names, which differentiate this treatment from the treatment of ordinary transfers in kind.

Note that, contrary to the text of § 8.49, there are two entries on consumption. Actual consumption of both government/NPISH and of households are affected.

5. The entries in the financial account are not concerned by the transfers in kind, except if there is a difference in timing that is specific to the transfers themselves.

As a whole, as for **3**, the treatment of social transfers in kind does not mofify the treatments relating to expenditures, and their financial counterparts.

8.57 Mid-paragraph (see also 7.79)

> "For this reason the amounts of taxes to be recorded in the System are determined by the amounts due for payment only when evidenced by tax assessments, declarations or other instruments, such as sales invoices or customs declarations, that create liabilities in the form of clear obligations to pay on the part of taxpayers.
> (In assessing the amount of tax accruing, care must be taken not to include tax unlikely ever to be collected)"

The sentence between brackets should be reworded and moved elsewhere:

- it is necessary to use an other word than the word "assess" if the sentence is intended to mean "estimate" or "compile"; "asess" could otherwise be understood to refer here to tax assessments, as just above mentioned; but assessments are assessments, they are made by tax authorities, and it is not the purpose of the SNA to provide guidance to tax authorities about what they have to assess;
- second, because the purpose of this § is only to indicate that the estimates of the amounts of taxes should be based only on economic events for which a tax assessment, or similar instrument, has been produced; it says no more than that. If there is no assessment, or equivalent, no tax has to be recorded in national accounts; for instance, no VAT has to be recorded if the underlying transaction is concealed to tax authorities so that there is never any tax assessment.

What is at stake afterwards is another issue: what to do on the basis of the existing assessments ? do national accountants have to include all amounts covered by tax assessments in the estimate of taxes to be recorded in national accounts ? The concern is that it is not an isolated issue. At least for some taxes, if the assessed amounts are not retained for their totality, it may be necessary to bring some adjustments, for instance on output, in order to keep the overall consistency of the accounts.

In other words, such an issue cannot be dealt only by the inclusion of the referred sentence. It would be better to add an extra § telling something as :

> "When assessments make up the basis of the estimate of the amounts of taxes, they should be cleared of amounts unlikely ever to be collected. In this case, it may be necessary to bring some adjustments on other variables of the accounts, in order to preserve their overall consistency"

8.125 The whole paragraph should be redrafted

See also the comments and proposed changes in the section "Transfers in kind".

> "Current transfers to NPISHs consist of transfers received from other resident or non-resident institutional units in the form of membership dues, subscriptions, voluntary donations, etc. whether made on a regular or occasional basis **1.** Transfers in the form of gifts of food, clothing, blankets, medicines, etc. to charities for distribution to resident or non-resident households are included to the extent that they are newly acquired **2** and are treated as transfers in cash used to purchase these commodities **3**. Gifts of unwanted or used articles from households typically do not have a market value and so do not feature in the accounts as transfers **4**. Gifts of valuables are treated as transfers of the value of the valuable in the balance sheet **5**. Transfers to NPISHs are intended to cover the costs of the non-market production of NPISHs or to provide the funds out of which current transfers may be made to resident or non-resident households in the form of social assistance benefits **6**. Payments of membership dues or subscriptions to market NPIs serving businesses, such as chambers of commerce or trade associations, are treated as payments for services rendered and are therefore not transfers (see paragraph 4.83). They are recorded in the production account as intermediate consumption and not in the secondary distribution of income account. **7**"

<u>Notes</u>: **1.** As it stands, this definition does not cover transfers in kind.

2. There is no reason to make this restriction, which would in this case hold only for transfers to NPISHs. It has to be hoped that, in particular, food and medicines are not too much dated ! The only criterion for recording such transfers is the existence, or not, of a value. However, national accountants are normally able to take their own decision. In the SNA, there is no need of specific guidance, that looks rather as a preach to donors [2]!

3. See the section “Transfers in kind”.

4. See 2.

5. Logically, transfers of valuables should be treated as capital transfers, unless they loose their position of valuables in the transfer, in which case entries are needed in the other changes in volume of assets account.

6. It is preferable to limit this observation to transfers in cash. Gifts of food and medicines are unlikely to be intended to cover the costs of NPISHs.

7. This last precision is useless here. The previous sentence is enough.

Suggested change (see SNA93 § 8.94):

“***Current transfers to NPISHs consist of transfers received from other resident or non-resident institutional units in the form of membership dues, subscriptions, voluntary donations, etc. whether made on a regular or occasional basis.***

Such transfers are intended to cover the costs of the non-market production of NPISHs or to provide the funds out of which current transfers may be made to resident or non-resident households in the form of social assistance benefits.

This transaction also covers transfers in kind in the form of gifts of food, clothing, blankets, medicines, etc. to charities for distribution to resident or non-resident households.

Transfers of valuables are treated as capital transfers.

However, payments of membership dues or subscriptions to market NPIs serving businesses, such as chambers of commerce or trade associations, are treated as payments for services rendered and are therefore not transfers (see paragraph 4.83).”

2. If you are stingy, you will not be recorded in national accounts !

C. Transfers in kind

There is, in the draft SNA08, a reconsideration of the treatment of transfers in kind, other than social transfers in kind. It leads to a new presentation of the treatment, that includes the imputation of notional cash flows.

The issue may be summarised as follows:

- a transfer in kind is equivalent to a transfer in cash which is followed by an expenditure, by the recipient, on the good, service or asset that makes up the purpose of the transfer in kind, insofar as income, expenditure, saving and net worth of both parties are concerned;
- however, it is a misleading mistake to conclude, on the basis of the above observation, that the recording of transfers in kind should actually include the imputation of cash flows from the donor to the recipient and the reverse, as shown for instance in the illustrative figures of chapter 8.

The presentation that is adopted in the draft SNA08 is useless. However, as it is expressed, it is rather anti-pedagogical, mainly because it relies on wrong rationales. Finally, this mistake entails a lot of wording drawbacks over the whole SNA08 volume, because there has been a systematical rubbing out of any reference to transfers in kind - except for social transfers in kind -, as if they did not exist.

This introduces some confusion in the definition of transfers, in particular in respect of the - already uneasy - distinction between current and capital transfers, this last category consisting precisely in transfers in kind for a large part.

Whilst mainly relevant in chapter 8, where illustrative cases are shown and developed, the issue dealing with transfers in kind covers also chapter 3 and chapter 10. Chapter 9 is also concerned.

After having shortly explained to what extent the SNA08 presentation of transfers in kind is wrong, this note lists all the paragraphs of the draft SNA08 that are concerned, explains the mistakes that they include, and finally proposes an alternative wording, which consists largely in taking up the SNA93 text. As a whole, it would be better to come back to the SNA93 text in this field. It is also necessary to restore some SNA93 text that has been deleted in the SNA08 volume.

A detailed presentation of the issues that are addressed by the treatment of transfers in kind, including an explanation of the wrong SNA08 treatment by comparison with the right treatment, is provided in an annex to this note.

1. What's wrong with the SNA08 treatment of transfers in kind ?

1. The SNA08 presentation of transfers in kind

As a starting point is the fact that, exception made of social transfers in kind, all transfers in kind are grouped in the same category with transfers in cash. This is true in SNA08 like in SNA93.

The concern is that the draft SNA08 elaborates on this basis a treatment that is presented in an excessive way. The best quotation in this respect is § 10.197, among others:

> 10.197 [...] Even when a good is bought by one unit and given to another, the usual recording is to impute a transfer in cash followed by the purchase of the item in question by the recipient.

The rationale of this treatment is provided in § 10.198. It does not matter that this rationale refers to capital transfers. Similar considerations may be found in § 3.78, that addresses transfers in kind in general.

> 10.198 [...] even when an asset is purchased by one unit and then transferred to another [...] a transfer in cash is recorded followed by the purchase of the asset by the recipient. In this way the net worth of the recipient of the transfer increases and that of the donor decreases and the change in ownership of the asset is recorded as gross fixed capital formation.

3.78 Although two-party transactions in kind do exist in practice, in the System they are recorded as if they are a transfer [3] in cash followed by cash expenditure on the item in question. This is necessary to ensure that there is a change in wealth of the donor without the donor acquiring the product transferred while the recipient acquires the product without any change in wealth. There is further discussion on this in respect of current transfers in chapter 9.[4]

2. Short analysis of the SNA08 presentation of transfers in kind

The imputation of flows of cash, as recommended by SNA08, does not bring anything to the treatment of transfers in kind. Over all, it does not change a transfer in kind into a transfer in cash. One may also wonder why, if this treatment was technically justified, it would not apply to social transfers in kind.

When all the events occurring in the context of a transfer in kind do not take place inside the same period of time, the right treatment does no more consist in imputing flows of cash. If it is judged necessary, the right treatment involves the use of “Other accounts payable/receivable”, as it is usually the case in this situation.

More important is the fact that it is not the imputation of flows of cash that leads to the changes in the respective net worth of the donor and the recipient, as it is more or less suggested by the wording of §§ 3.78 and 10.198. Insofar as capital transfers are concerned, for instance, they always modify the net worth of the transactors, without any need of imputation of cash flows.

In general, misunderstandings in the analysis of transfers stem from the fact that the treatment is often assessed considering the impact of the whole arrangement - transfer + acquisition of a good, service, etc. -, instead of restricting the analysis to the only transfer itself.

A detailed argumentation, with illustrative examples, is provided in an Annex.

3. Transfers in kind in national accounting

SNA93 § 8.42 provides the right statement about the treatment of transfers in kind in national accounts – i.e. not only as it is in SNA93, but also as it should be in SNA08:

> “All other transfers in kind [*i.e. other than social transfers in kind*] are recorded in the secondary distribution of income account along with those taking place in cash.” [5]

This means very simply that transfers in kind do exist, but that only social transfers in kind are identified under a specific category of transactions in the classification of transactions, the other transfers in kind being shown and merged with transfers in cash in the various headings of the classification of transfers. For instance, there is no heading for capital transfers in kind.

The differences between transfers in cash and transfers in kind are the following ones:

- the counterpart transaction of a transfer in cash is a financial transaction on cash, while the counterpart transaction of a transfer in kind is the acquisition of a good, a service or an asset other than cash: however, all transfers are balanced transactions that respect the double entry principle
- for current transfers:
    - transfers in cash and transfers in kind have the same impact on disposable income
    - however, while transfers in cash result in a change in the respective saving and net worth of both the donor and the recipient, transfers in kind do not
- for capital transfers: both types of transfer change the net worth of the parties to the transaction (no impact on income and saving)

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3. The wording is incorrect. The paragraph deals apparently with two-party transactions in kind in general. It then addresses only transfers, which may confuse the reader: a two-party transaction such as remuneration in kind is not a transfer.
4. The reference to chapter 9 seems to be wrong. The right reference is chapter 8 (The redistribution of income accounts).
5. As this paragraph belongs to chapter 8, only current transfers are concerned.

2. <u>Chapter 3 references - changes to be made</u>

Deleted text is crossed. Changes that are inserted are underlined.

§ 3.78. The best is to delete this paragraph.

§ 3.82. The paragraph may be changed as follows:

~~As noted above, transactions in kind are recorded in the accounts as if they are transfers in cash followed by the expenditure by the recipient on the products concerned. This treatment applies to~~ <u>The System records a variety of transfers in kind, including</u> government international cooperation, gifts and charitable contributions. Government international cooperation, gifts, and charitable contributions are often made in kind for convenience, efficiency, or tax purposes. For example, international aid after a natural disaster may be more effective and delivered faster if made directly in the form of medicine, food, and shelter instead of money. Charitable contributions in kind sometimes avoid taxes that would be due if the item in question were sold and the money given to the charity.

<u>Comment</u>: the added text comes from SNA93 § 3.41

§ 3.83. The paragraph may be changed as follows:

~~The only reference in the System to transfers in kind is the special case of~~ social transfers in kind~~. These~~ consist of goods and services provided by general government and non-profit institutions serving households (NPISHs) that are delivered to individual households. Health and education services are the prime examples. Rather than provide a specified amount of money to be used to purchase medical and educational services, the services are often provided in kind to make sure that the need for the services is met.

3. <u>Chapter 8 references - changes to be made</u>

<u>Paragraphs to restore</u>

It is necessary to restore the §§ 8.41-8.42 of SNA93, that appear in the sub-section called: The treatment of transfers in kind - summary. It is in particular necessary to restore § 8.42 that provides the right interpretation of the treatment of "ordinary" transfers in kind and that is reproduced below:

"All other transfers in kind are recorded in the secondary distribution of income account along with those taking place in cash. The goods and services transferred are recorded as consumption expenditures by the recipients in the use of disposable income account."

§ 8.10. The paragraph may be changed as follows:

Apart from the balance of primary incomes, the balancing item carried forward from the primary distribution of income accounts, and disposable income, the balancing item ~~on~~ <u>of</u> the secondary distribution of income account, all the entries in the secondary distribution of income account consist of current transfers. ***A transfer is a transaction in which one institutional unit provides a good, service or asset to another unit without receiving from the latter any good, service or asset in return as a direct counterpart.*** Transfers are separated into current transfers and capital transfers. <u>A capital transfer is one in which the ownership of an asset is transferred or which obliges one or both parties to acquire, or dispose of an asset. Other transfers are described as current. The concept of a transfer is explained in more detail in section B below</u>.

~~***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.*** 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. Other transfers are described as current. ***A current transfer is a transaction in which one institutional unit provides a good, service or asset to another unit without receiving from the latter any good, service or asset directly in return as counterpart and does not oblige one or both parties to acquire, or dispose of, an asset.*** The concept of a transfer is explained in more detail in section B below.~~

Comments: 1. the expression “unrequited transfer” is a pleonasm, a transfer being an unrequited transaction, by definition

2. the short SNA93 definition of a capital transfer is more relevant and adequate: “A capital transfer is one in which the ownership of an asset is transferred or which obliges one or both parties to acquire, or dispose of an asset”

3. the precision “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” is useless at this point of the chapter; it is a secondary feature of capital transfers that, nevertheless, is judged to be not decisive in § 8.38

4. it is better to stick to a negative definition of current transfers - such as : “Other transfers are described as current”-, a way that is frequently used in classification, and that is wiser than an explicit definition, that can sometimes lead to dead ends.

§ 8.33. The paragraph may be changed as follows:

As defined above, ***a transfer is a transaction in which one institutional unit provides a good, service or asset to another unit without receiving from the latter any good, service or asset in return as a direct counterpart***. A cash transfer consists of the payment of currency or transferable deposit by one unit to another without any counterpart. A transfer in kind consists either of the transfer of ownership of a good or asset, other than cash, or the provision of a service, again without any counterpart.

A unit making a transfer receives no specific quantifiable benefit in return that can be recorded as part of the same transaction. Nevertheless, the payment of a social insurance contribution or non-life insurance premium may entitle the unit making the payment to some contingent future benefits. For example, a household may be entitled to receive some social benefits should certain events occur or certain conditions prevail. Alternatively, a household paying taxes may be able to consume certain collective services provided by government units. However, the fact that a transfer has been made does not automatically mean a benefit will be received by the unit making the transfer nor, if it does, that the amount of the benefit is commensurate with the amount of the transfer. It is for this reason that the System holds there is no direct counterpart to the transfer.

Comment: the addition is intended to reintroduce the useful distinction between transfers in cash and transfers in kind; the text comes from SNA93 § 8.27

§ 8.37. The paragraph may be changed as follows:

Transfers may be either current or capital. In order to distinguish one from the other, it is preferable to focus on the special characteristics of capital transfers. First, a transfer in kind is capital when it consists of the transfer of ownership of an asset, other than inventories. Secondly, a transfer of cash is capital when it is linked to, or conditional on, the acquisition or disposal of an asset (other than inventories) by one or both parties to the transaction, for example, an investment grant.

~~As noted above, a capital transfer is one that is linked to the acquisition or disposal of an asset~~. Institutional units must be capable of distinguishing capital from current transfers and must be presumed to treat capital transferred during the course of the accounting period in the same way as capital held throughout the period. For example, a prudent household will not treat a capital transfer that happens to be received during a particular period as being wholly available for final consumption within the same accounting period. Conversely, a household making a capital transfer (for example, the payment of an inheritance tax) will not plan to reduce its final consumption by the whole amount of the transfer. Unless institutional units are capable of distinguishing capital from current transfers and react differently to them, it becomes impossible to measure income, both in theory and in practice.

Comment: the addition is intended to reintroduce the useful distinction between transfers in cash and transfers in kind; the text comes from SNA93 § 8.31

§ 8.42. The paragraph may be changed as follows:

~~Provisions of goods and services~~ Transfers in kind, except social transfers in kind

The second example is of an enterprise producing medicines that donates some of its output free of charge to a charity (NPISH). ~~The only transfers recorded in the System as being in kind are social transfers in kind (discussed below). For all other transfers, both current and capital, a cash transfer is imputed followed by an imputed cash purchase of the goods and services being provided. This implies that two transactions should be recorded, each with four entries. In this example, the first is the provision of a transfer by the enterprise to the NPISH, the second is the purchase of the medicine by the NPISH using the funds made available by the transfer. Both transactions imply two entries in the financial account and, if both transactions are completed in the same accounting period, these changes in financial assets will cancel each other for both units involved, leaving only four entries apparent in the accounts. However, if there is a difference in the timing between when the transfer is recorded and when the delivery of the medicine takes place, there will be need to include the entries in the financial accounts.~~

Although the transfer is in kind rather than cash, the recording of the transfer has the same impact on the disposable incomes of the NPISH and the enterprise as a transfer in cash. The acquisition of the medicine by the NPISH has to be recorded in the use of disposable income account as an imputed expenditure out of disposable income, in the same way as the acquisition of a good or service received as remuneration in kind.

Comments:
1. the heading of the example is changed [6] in order to reintroduce the mention to transfers in kind
2. the added text comes from SNA93 § 8.36
3. although relevant, the mention of the possible difference of timing is not specific to this transaction - it could also have been mentioned for transfers in cash - and seems inappropriate here
4. the relating figure is changed as follows:

	NPISH		Enterprise	
	Uses / Changes in assets	Resources / Changes in liabilities and net worth	Uses / Changes in assets	Resources / Changes in liabilities and net worth
Secondary Distribution of income account ~~Financial account~~		Transfer receivable ~~Increase in financial asset~~	Transfer ~~P~~payable ~~Decrease in financial asset~~	
Production account Use of income account ~~Financial account~~	Expenditure on medicine ~~Decrease in financial asset~~			Output/sale ~~of benefit~~ ~~Increase in financial asset~~

Notes on the figure:
1. The sale bears on medicine, not on a benefit.
2. The recordings in the financial accounts, in addition to be useless if there is no difference in timing between the recording of the transfer and the delivery of medicine, were completely wrong.
   In the table, the NPISH records both a decrease in financial assets and an increase in financial liabilities, the enterprise too. Transfers in kind are not a good business !
   In fact, when there is a difference in timing, the enterprise records an increase in liabilities, followed by a decrease of the same. For the NPISH, there are two opposite entries on the asset side.

§ 8.43. The paragraph may be changed as follows:

A more complex variant occurs if enterprise A purchases the medicine from enterprise B and then gives it to an NPISH. Although A actually purchases the goods from B, they do not form part of A's intermediate consumption or capital formation. Nor can they be recorded as final consumption by A, since it is an enterprise~~. As before, a cash transfer is imputed from enterprise A to the NPISH and an imputed purchase by the NPISH. If both transactions occur in~~

6. Whatever their treatment can be, transfers in kind do exist. It is not by cancelling the name that the thing will disappear.

~~the same accounting period, the two entries of the financial account for the NPISH will cancel, leaving only six of the eight entries apparent in the accounts~~.

Comment: although relevant, the mention of the possible difference of timing is not specific to this transaction - it could also have been mentioned for transfers in cash - and seems inappropriate here

The relating figure is changed as follows:

	NPISH		Enterprise A		Enterprise B	
	Uses / Changes in assets	Resources / Changes in liabilities and net worth	Uses / Changes in assets	Resources / Changes in liabilities and net worth	Uses / Changes in assets	Resources / Changes in liabilities and net worth
Secondary Distribution of income account		Transfer receivable	Transfer ~~P~~payable			
Financial account		~~Increase in financial asset~~	Decrease in financial asset			
Production account						Output/sale ~~of benefit~~
Use of income account	Expenditure on medicine					
Financial account	~~Decrease in financial asset~~				Increase in financial asset	~~Increase in financial asset~~

Notes on the figure: As above, the recordings in the financial accounts were wrong. They were also inconsistent: why cancelling two entries only ?

§ 8.44. The paragraph may be changed as follows:

In the System, final consumption expenditure is incurred only by general government, NPISHs and households. All consumption expenditure by households is incurred on their own behalf. Consumption expenditure by general government, on the other hand, is either for the benefit of the community at large (collective consumption) or for the benefit of individual households. This distinction between collective and individual consumption expenditure is of considerable importance in the System and is discussed in detail in chapter 9. Consumption expenditures by general government and NPISHs on behalf of households (their individual consumption expenditures) are undertaken for the purpose of making social transfers in kind. They cover the non-market output of both general government and NPISHs delivered to households free, or at prices that are not economically significant, as well as goods and services bought from market producers and provided to households free or at prices that are not economically significant. Social transfers in kind are recorded differently from ~~the provision of other goods and services without charge~~ other transfers in kind

§ 8.47. The paragraph may be changed as follows:

In this case the consumption of the education service is recorded as actual consumption by households in the use of adjusted disposable income account. The resources for this are provided via social transfers in kind from government to households in the redistribution of income in kind account. (The distinction between actual consumption and consumption expenditure for households, general government and NPISHs is further elaborated in chapter 9.)

However, this distinction is not recognized in the System for other current transfers in kind for which the acquisition of the good or service is always recorded as involving both the receipt of a transfer and an imputed expenditure by the recipient. In consequence, current transfers in kind, except social transfers, received by households or other institutional units such as NPISHs are recorded in the secondary distribution of income account and therefore affect disposable income.

Comment: it is useful to restore this text from SNA93 § 8.39, that explains very clearly the differences between the respective treatments of ordinary transfers in kind and social transfers in kind

§ 8.125. The paragraph may be changed as follows (to the extent as transfers in kind are concerned; see also "Substantial mistakes and wording issues):

Current transfers to NPISHs consist of transfers received from other resident or non-resident institutional units in the form of membership dues, subscriptions, voluntary donations, etc. whether made on a regular or occasional basis.

Current transfers to NPISHs also cover transfers in kind ~~Transfers~~ in the form of gifts of food, clothing, blankets, medicines, etc. to charities for distribution to resident or non-resident households ~~are included to the extent that they are newly acquired and are treated as transfers in cash used to purchase these commodities~~.

3. Chapter 9 references - changes to be made

§ 9.39 end of paragraph (penultimate)

"The same recording is adopted for transfers of capital; that is there are no capital transfers in kind in the System."

This is a too strong statement. Capital transfers in kind exist, some met them !

Delete the sentence, that is however irrelevant there.

4. Chapter 10 references - changes to be made

1. § 10.19

The paragraph may be changed as follows:

~~***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.~~

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

Comments:
1. the expression "unrequited transfer" is a pleonasm, a transfer being an unrequited transaction, by definition
2. the end of the paragraph : "The cancellation … as current." is unnecessary at this stage of the chapter, and too short for a complete understanding
3. preference should be given to a complete and consistent definition, such as the one provided in SNA93 § 10.29, that is reproduced.

2. Other paragraphs of chapter 10

The changes that need to be made in chapter 10 are more difficult to introduce.

Paragraphs to be deleted

§§ 10.197, 10.198 and 10.199 are certainly to be deleted, since they expose the need of the useless and misleading imputations in cash.

This is particularly the case for § 10.198 that states:

"... when an asset is purchased by one unit and then transferred to another [...] a transfer in cash is recorded followed by the purchase of the asset by the recipient. In this

> way the net worth of the recipient of the transfer increases and that of the donor decreases ...”

It is the - non financial - transaction “Capital transfer” itself that decreases the net worth of the donor and increases the net worth of the recipient, without any need to impute cash movements.

Paragraphs to change, introduce and/or restore

§ 10.193 is identical to § 10.19, and fall under the same criticisms.

§ 10.194, 10.195 and 10.196 are taken up from the SNA93 text (10.133, 10.134) without any substantial change.

However, what is missing in the draft SNA08 is the distinction between in cash and in kind, that was introduced in SNA93 § 10.131, and its application to the specific case of capital transfers, that is the purpose of SNA93 § 10.132, where it is specially relevant for the cancellation of liabilities.

So, the best solution is to take up all the relevant § of SNA93, from § 10.131 to 10.135, that are reproduced below.

10.131. Capital transfers receivable and payable are recorded on the right side of the capital account. A transfer is defined as a transaction in which one institutional unit provides a good, service or asset to another unit without receiving in return from the latter any counterpart in the form of a good, asset or service (see chapter VIII). Transfers may be made in cash or in kind as follows:

(a) A cash transfer consists of the payment of money by one unit to another without any counterpart;

(b) A transfer in kind consists of the transfer of ownership of a good or asset (other than cash), the cancellation of a liability or the provision of a service without any counterpart.

10.132. Transfers in cash and in kind may both be divided into current and capital transfers as follows:

(a) A capital transfer in kind consists of the transfer of ownership of an asset (other than inventories and cash) or the cancellation of a liability by a creditor, without any counterpart being received in return;

(b) A capital transfer in cash consists of the transfer of cash that the first party has raised by disposing of an asset, or assets (other than inventories), or that the second party is expected, or required, to use for the acquisition of an asset, or assets (other than inventories). The second party, the recipient, is often obliged to use the cash to acquire an asset, or assets, as a condition on which the transfer is made.

Thus, whether the transfer is made in cash or in kind, it should result in a commensurate change in the financial, or non-financial, assets shown in the balance sheets of one or both parties to the transaction. A capital transfer in cash serves a similar purpose to the actual transfer of an asset in so far as it should lead either to a decrease in the first party's assets or an increase in the second party's assets, or both. Capital transfers may also be distinguished by the fact that they tend to be large and infrequent, but they cannot be defined in terms of size or frequency. Their essential characteristic is that they should involve the disposal or acquisition of assets by one or both parties to the transaction.

10.133. A current transfer reduces the income and consumption possibilities of the first party and increases the income and consumption possibilities of the second party. Current transfers are therefore not linked to, or conditional, on the acquisition or disposal of a tangible fixed asset or assets by one or both parties to the transaction. Some cash transfers may be regarded as capital by one party to the transfer but as current by the other. For example, the payment of an inheritance tax may be regarded as the transfer of capital by the taxpayer but be regarded as a current receipt by government because it receives many such transfers. Similarly, a large country that makes investment grants to a number of smaller countries may regard the grants as current transfers even though they are specifically intended to finance the acquisition of capital assets. In an integrated system of accounts, such as the SNA, it is not feasible, however, to classify the same transaction differently in different parts of the System. Accordingly, a transfer should be classified as capital for both parties even if it involves the acquisition or disposal of an asset, or assets, by only one of the parties.

10.134. There may be cases in which it is difficult to decide on the evidence available whether to classify a cash transfer as current or capital. When there is serious doubt, the transfer should be classified as current rather than capital. It should be noted, however, that the decision as to which way to classify a transfer has important consequences for the allocation of saving between sectors and subsectors, and possibly between the economy as a whole and the rest of the world. Other things being equal, a current transfer increases the saving of the recipient and reduces that of the donor, whereas a capital transfer does not affect the saving of either party. If, therefore, cash transfers are incorrectly classified between current and capital, the saving behaviour recorded for the units or subsectors involved may be misleading for purposes of economic analysis and policymaking.

10.135. A capital transfer in kind is recorded when the ownership of the asset is transferred or the liability cancelled by the creditor. A capital transfer in cash is recorded when the payment is due to be made. The transfer of a non-financial asset is valued by the estimated price at which the asset, whether new or used, could be sold on the market plus any transport, installation or other costs of ownership transfer incurred by the donor but excluding any such charges incurred by the recipient. Transfers of financial assets, including the cancellation of debts, are valued in the same way as other acquisitions or disposals of financial assets or liabilities.

D. Other points, mistakes and wording issues

8.10 1st sentence

> "Apart from the balance of primary incomes, the balancing item carried forward from the primary distribution of income accounts, ..."

In chapter 7, the referred account is – although wrongly – called: "The distribution of income accounts".

8.12 last sentence

> "social benefits of 332 receivable by the household sector"

the correct heading is: social benefits other than social transfers in kind

the amount of such social benefits receivable by the household sector = 384, and not 332 (cf. table)

from an approximate heading and a wrong figure, a beginner may conclude that there should be some mystery behind all that, that he cannot understand

8.24 middle of the §

After the brackets, for a full understanding of the idea, it would not be too much to reproduce the following that comes from SNA93 § 8.15:

> "According to the concept of disposable income used in the System, the net worth that needs to be maintained intact is that at the beginning of the accounting period adjusted for the value of any capital transfers received or paid, for other changes in the volume of assets and for any real holding gains or losses accruing during the accounting period"

8.25

> "Most current transfers, whether in cash or in kind, can take place between resident and non-resident institutional units as well as between resident units. Gross or net national disposable income may be derived from gross or net national income by"

It may be useful to specify/recall that all social transfers with the RoW, in cash or in kind, are recorded together with transfers in cash in the secondary distribution of income account.

8.30 2nd sentence

> "For example, in table 8.2, the value of individual non-market goods or services provided free, or at prices that are not economically significant, by government units is recorded at the intersection of the row for this item and the uses column for the general government sector"

This row does not appear in table 8.2. It appears nowhere in the chapter, anyway. There is no subdivision shown of social transfers in kind in the chapter.

8.31 last sentence

> "In practice, the concept of adjusted disposable income is mainly relevant to government units, ~~NPISHs~~ and households, the distinction between adjusted disposable income and disposable income being irrelevant at the level of the economy as whole"

In practice, whatever the sympathy one may have for NPISHs, it is for households and government that the adjusted disposable income is mainly relevant. If not, as this concept is only defined for the above 3 sectors, the sentence is tautological. So, delete NPISHs or both "in pratice" and "mainly".

8.32 last sentence

> "Conversely, the adjusted disposable income of general government can be interpreted as measuring the maximum value of the collective services that it can afford to provide to the community without having to reduce its cash"

It is possible that this sentence be useless. However, as it has already been used for households, it is therefore necessary to repeat it completely, otherwise the reader could be misled. So, it is necessary to complete:

> "Conversely, the adjusted disposable income of general government can be interpreted as measuring the maximum value of the collective services that it can afford to provide to the community without having to reduce its cash, dispose of other assets, or increase its liabilities for the purpose"

It is frequent that governments increase their liabilities.

8.41

> "The first example is of a current transfer in cash, such as the payment of a social security benefit in cash~~. The transfer is recorded as payable by the social security fund and receivable by the household in the secondary distribution of income account~~. <u>The transfer increases the disposable income of the household and reduces that of the social security fund</u>. ~~(~~If the transfer were a capital transfer, it would be recorded in the capital account instead of the secondary distribution of income account.~~)~~ ~~The consequence of the transfer is a reduction in the financial assets (or increase in the financial liabilities) of the social security scheme and an increase in the financial assets of the household.~~ The eventual use of the cash by the household is recorded subsequently as a separate transaction."

<u>notes</u>: the figure should be enough to understand the treatment, it is not necessary to add a text, specially for the financial positions

in general, avoid brackets

on the contrary, the impact on the disposable income of both parties should be indicated in the text, since it is the topic of the chapter and the purpose of the example

8.42 see also some proposed changes in the section "Transfers in kind"

> The second example is of an enterprise producing medicines that donates some of its output free of charge to a charity (NPISH)~~. The only transfers recorded in the System as being in kind are social transfers in kind (discussed below). For all other transfers, both current and capital, a cash transfer is imputed followed by an imputed cash purchase of the goods and services being provided. This implies that two transactions should be recorded, each with four entries. In this example, the first is the provision of a transfer by the enterprise to the NPISH, the second is the purchase of the medicine by the NPISH using the funds made available by the transfer. Both transactions imply two entries in the financial account and, if both transactions are completed in the same accounting period, these changes in financial assets will cancel each other for both units involved, leaving only four entries apparent in the accounts. However, if there is a difference in the timing between when the transfer is recorded and when the delivery of the medicine takes place, there will be need to include the entries in the financial accounts.~~

The impact on disposable income, that is the topic of the chapter, should be indicated.

Suggested addition (SNA93 § 8.36):

> "Although the transfer is in kind rather than cash, the recording of the transfer has the same impact on the disposable incomes of the NPISH and the enterprise as a transfer in cash. The acquisition of the medicine by the NPISH has to be recorded in the use of disposable income account as an imputed expenditure out of disposable income, in the same way as the acquisition of a good or service received as remuneration in kind."

8.43 see also some proposed changes in the section "Transfers in kind"

It is necessary to indicate the impact on disposable income, that is the topic of the chapter, such as SNA93 § 8.37:

> “As in the previous case, the disposable income of the NPISH receiving the transfer in kind is increased by the transfer, an imputed expenditure of equal value being recorded in the use of disposable income account.”

8.45

> “The next example is of an education service provided to a household by a non-market producer owned by a government unit. The provision of the service is actually recorded twice in the accounts of the System. First, it is recorded ~~in the traditional way in national accounting~~ as output by government in the production account and final consumption expenditure of government in the use of income account. “

This way was traditional before SNA93 was published. Now it is current practice, at least for those who apply the SNA93 (if they do not, what do they do ? certainly not traditional accounting).

8.46 The figure should follow the paragraph.

8.51 penultimate sentence (see also comments on 7.70)

“…the terms “direct” and “indirect” are **no longer used** in the System”.

It is better to say “are not used in the System”: it was in SNA93 that, by difference with SNA68, it was relevant to say “no longer”.

8.126 last sentence

> “Earnings remitted by seasonal workers to their families are not international transfers as the workers remain resident in their country of origin (that is, they are still members of their original households) when they work abroad for periods of less than a year. Their earnings are recorded as compensation of employees from abroad if they have the status of an employee in the non-resident country while they are working there or as the provision of services otherwise”.

It is not useful to specify what their earnings are. However, if it is really felt useful, it is then necessary to indicate both the treatment of the earnings of resident seasonal workers abroad and of the earnings of non-resident seasonal workers in the domestic economy.

8.138 social transfers in kind to non-residents

The case may also be mentioned of non-market services of higher education, foreign students being always considered as non-resident.

Annex: the treatment of transfers in kind

Introduction

Several times, in the text of SNA08, it is told that transfers in kind are treated as if they were in cash. This statement is taken at face value, so that a treatment has been designed this way and is systematically applied over the whole volume 1. The treatment consists in imputing notional cash-flows in the financial account. Examples are provided in chapter 8 - §§ 8.42-8.43. This treatment has been rationalised in chapter 3.

The concern is that this presentation is rather wrong. In addition, under the pretext that transfers in kind are completely recorded as if they were in kind, all textual references to transfers in kind, other than social transfers in kind, have been deleted all along the volume.

In fact, transfers in kind may be treated in a far more simple way than through the imputation of cash flows, a method that proves eventually to be useless and counter-pedagogical. This simple recording is perfectly consistent with national accounting rules.

Evidence of that is provided below, following an approach that is rather long. All the developments refer to the display of T-accounts, for a donor and a recipient. Are successively addressed:

1. Reminder on transfers in cash
2. 1st example: an household transfers a consumption good that he previously owned
3. 2nd example: the transfer in kind implies the purchase of a good
4. Application to the example of SNA08 § 8.42
5. How to deal with differences in timing ?
6. Recording a capital transfer in kind
7. Conclusion

1. Reminder: recordings relating to transfers in cash

1. Recording a current transfer in cash

Table 1: Accounts for a current transfer in cash - amount x - from a donor to a recipient

Donor

Uses		Current accounts	Resources	
current transfer	x			
income / saving	– x			
ΔAssets		**Capital account**	**ΔLiab.**	
			saving	– x
B.9	– x		B.10.1	– x
ΔAssets		**Financial account**	**ΔLiab.**	
cash	– x		B.9	– x

Recipient

Uses		Current accounts	Resources	
			current transfer	x
income / saving	+ x			
ΔAssets		**Capital account**	**ΔLiab.**	
			saving	+ x
B.9	+ x		B.10.1	+ x
ΔAssets		**Financial account**	**ΔLiab.**	
cash	+ x		B.9	+ x

Impact on net worth

Donor: net worth – x

Recipient: net worth + x

Notes: the records refer exclusively to the transfer itself, not to the transactions that may follow the transfer (use of the cash by the recipient)

a current transfer in cash has an impact on disposable income and saving of both parties

it leads to two opposite changes in net worth, through an exchange of saving - B.10.1

2. Recording a capital transfer in cash

A capital transfer in cash is characterised:

- either by an event that occurs before the transfer: the disposal of an asset by the donor,
- or by an event that occurs after the transfer: the use of the transferred cash by the recipient to acquire an asset.

When such events are identified, the transfer is recorded as capital, which means that the transfer transaction is shown in the capital account.

The following transactions are recorded:

Table 2: Accounts for a capital transfer in cash - amount x - from a donor to a recipient

Donor

Uses	Current accounts	Resources
income / saving	0	

ΔAssets	Capital account		ΔLiab.
		saving	0
		D.9	– x
B.9	– x	B.10.1	– x

ΔAssets	Financial account		ΔLiab.
cash	– x	B.9	– x

Recipient

Uses	Current accounts	Resources
income / saving	0	

ΔAssets	Capital account		ΔLiab.
		saving	0
		D.9	+ x
B.9	+ x	B.10.1	+ x

ΔAssets	Financial account		ΔLiab.
cash	+ x	B.9	+ x

Impact on net worth

	Donor	Recipient
net worth	– x	+ x

Notes: the records refer exclusively to the transfer itself, not to the transactions that may precede (disposal of asset by the donor) or follow the transfer (use of the cash by the recipient)

a capital transfer in cash has no impact on disposable income and saving of the parties

2. Recordings relating to a current transfer in kind: an household provides an existing consumption good to an household

1. Assumptions

- the transfer bears on a consumption good that is already owned by the donor
- all events take place inside the same period: the decision of transfer, the delivery of the good

2. Recordings

The simple obvious recording of a transfer in kind consists in balancing the entry corresponding to the good that makes the purpose of the transfer by the transfer itself:

- for the donor, the transfer is recorded under uses, with a negative final consumption expenditure as a counterpart under uses;
- for the recipient, the transfer is recorded under resources, with a final consumption expenditure as a counterpart under uses.

The following transactions are recorded:

Table 3: Accounts for a current transfer in kind - amount x - from a donor to a recipient of a good owned by the donor

Donor

Uses	Current accounts	Resources
current transfer	x	
income	– x	
consumption exp.	– x	
saving	0	

ΔAssets	Capital account	ΔLiab.
		saving 0
B.9	0	B.10.1 0

ΔAssets	Financial account	ΔLiab.
		B.9 0

Recipient

Uses	Current accounts	Resources
		current transfer x
income	+ x	
consumption exp.	x	
saving	0	

ΔAssets	Capital account	ΔLiab.
		saving 0
B.9	0	B.10.1 0

ΔAssets	Financial account	ΔLiab.
		B.9 0

Impact on net worth

	Donor	Recipient
net worth	0	0

Notes: a current transfer in kind has the same impact on disposable income as a current transfer in cash however, its impact on saving and, therefore, on net worth is different from the transfer in cash

3. Comments

1. It is easier to understand what occurs on saving by taking the point of view of the recipient:
   - the transfer transaction increases the recipient's disposable income
   - as, at the same time, he receives a good that enters his final consumption expenditure [7], his saving is not altered by the transfer

   For the donor, things are of course symmetrical. However, this is due to a convention that, consumption goods being not assets, their disposal is recorded as a negative expenditure, even if their acquisition took place before the current period.

2. There is no reason for an impact on net worth to take place, since no asset - even cash – is involved in the transaction.

   From an accounting point of view, the absence of impact on net worth is evidenced by the fact that B.10.1 is nil, due to the nullity of saving.

3. It may occur that the donor, in the case where he is a producer for instance, has to withdraw from his inventories the good that is transferred. This is still a current transfer, according to rules governing the classification of transfers.

   In this case, the net worth of the donor is lower after the arrangement than before it. However, this effect does not result from the transfer itself, but from the change in the classification of the transferred item, from an asset position to a consumption good position, that is not an asset in national accounts.

   Once again, a current transfer in kind has no impact, by itself, on the net worth of parties.

4. Imputing cash movements – as suggested by the draft SNA08 - is useless

In several places, the draft SNA08 recommends the following treatment:

> the usual recording is to impute a transfer in cash followed by the purchase of the item in question by the recipient

[7]. See below why there is no difference between expenditure and acquisition in an ordinary transfer in kind.

This suggestion would lead to the following amendments to be brought to the treatment reported in the above Table 3:

- the counterpart entry to the current transfer is a cash flow: an imputed disposal of cash by the donor, an imputed acquisition of cash by the recipient, to be recorded in the financial account
- the recipient uses the (imputed) funds made available by the transfer to make an imputed purchase that, in the context of this example, is addressed to the donor
- this purchase results in a final consumption expenditure transaction with a counterpart entry on cash: the negative expenditure of the donor that is a sale - is balanced by an acquisition of cash, the positive expenditure of the recipient is balanced by a disposal of cash, to be recorded in the financial account

Therefore, all non financial transactions to be recorded are identical to those of Table 2. The only differences are shown in the financial accounts of both parties, that stand as follows:

Table 3 bis: Financial accounts for a current transfer in kind according to the draft SNA08 rules

Donor				Recipient			
ΔAssets	Financial account		ΔLiab.	ΔAssets	Financial account		ΔLiab.
cash	– x			cash	+ x		
cash	+ x	B.9	0	cash	– x	B.9	0

The following remarks may be made.

1. From above, it can be seen that the imputations made in the financial account bring nothing by comparison with a more simple treatment, since the cash flows cancel out. These imputations are actually useless. This is the case at least when all the events occur during the same period, that is in exactly the same context as in Table 3.

2. The recommendation of this treatment may be due to a bad understanding of the double entry recording principles. These principles do not actually request that the counterpart entry of a non financial transaction bears on changes in assets or liabilities.

   The double entry recording requests only that a transaction must be recorded twice:

   - once as an accounting entry under uses or changes in assets,
   - once as an accounting entry under resources or changes in liabilities.

   Therefore, from the recipient's point of view, a recording implying an entry under resources for the transfer and under uses for the transferred item is perfectly consistent with the double entry recording principle. The same holds for the symmetrical recordings for the donor.

3. Now, let assume that, for any reason, it is judged that the time of recording of the transfer is before the time of delivery - the latter corresponds to the time of recording of the imputed purchase. This would imply that, after the transfer, the recipient has a positive holding of cash [8]. It is however not usual to show imputed positions of cash in national accounts. In addition, this does not correspond to a situation that is reported in the monetary statistics.

The issue of a recording taking account of a possible difference in timing between the transfer itself and the delivery of the counterpart item is dealt with below.

3. Recordings relating to a current transfer in kind: an household carries out a transfer leading to an actual purchase of a consumption good

In fact, in this case, the recordings that relate to the only transfer itself should exactly be the same as in the previous example. This has however to be proved. The presence of an actual purchase of a new

[8]. Given the assumption of an imputed cash movement, it is not possible to record a position under "Other accounts payable/receivable".

good may indeed blur the analysis.

1. Assumptions
   - the donor purchases a consumption good, and makes it available to the recipient; or the recipient purchases a good and is reimbursed by the donor; or the donor pays a third party that provides a good to the recipient;
   - all cases are transfers in kind to the extent that the recipient has no choice about the use of the transfer;
   - all events take place inside the same period: the decision of transfer, the delivery of the good.

2. Preliminary observation

   The purchase of a good for consumption purpose corresponds for the purchaser as a reduction of wealth/net worth, since it consists in an exchange of an asset - cash or cash equivalent - against something that is not an asset.

   In this case of transfer, by difference with the case treated under point 2, the good is purchased from a third party. This means that, taken in its totality, the arrangement - that is the purchase of the good and the transfer of the good - results for the donor and the recipient, considered as a whole, in a reduction of net worth. This has to be remembered when analysing the recordings.

3. First representation: a purchase by the donor followed by the transfer of the good to the recipient

   The transactions are recorded in sequence.

	Donor				Recipient				
	Uses/ΔAssets			Resources/ΔLiab.	Uses/ΔAssets			Resources/ΔLiab.	
purchase of the good									
	consumption exp.	+	x						
	cash	–	x						
transfer of the good									
	consumption exp.	–	x		consumption exp.	+	x	transfer	x
	transfer		x						

4. Second representation: a transfer in cash followed by the purchase of the good by the recipient

   This representation corresponds to the treatment recommended in the draft SNA08.

	Donor				Recipient				
	Uses/ΔAssets			Resources/ΔLiab.	Uses/ΔAssets			Resources/ΔLiab.	
transfer in cash									
	transfer		x					transfer	x
	cash	–	x		cash	+	x		
purchase of the good									
					consumption exp.	+	x		
					cash	–	x		

5. Recordings relating to the whole arrangement

   Finally, when opposite transactions are cancelled out, the two representations result in the same transactions, that are:
   - a current transfer transaction from the donor to the recipient
   - a disposal of cash by the donor
   - a consumption expenditure by the recipient

The arrangement leads therefore to the following recordings:

Table 4: Accounts for an arrangement including the purchase of a good purchased from a third party at the intention of a recipient

Donor

Uses	Current accounts		Resources
current transfer	x		
income	– x		
saving	– x		

ΔAssets	Capital account		ΔLiab.
		saving	– x
B.9	– x	B.10.1	– x

ΔAssets	Financial account		ΔLiab.
cash	– x	B.9	– x

Recipient

Uses	Current accounts		Resources
income	+ x	current transfer	x
consumption exp.	+ x		
saving	0		

ΔAssets	Capital account		ΔLiab.
		saving	0
B.9	0	B.10.1	0

ΔAssets	Financial account		ΔLiab.
		B.9	0

Impact on net worth

	Donor	Recipient
net worth	– x	0

The following remarks may be made.

1. As expected, the net worth of the donor and the recipient considered together is reduced by the arrangement. Inside the arrangement, it is the purchase of the good that leads to this impact. It is the net worth of the unit who finances the purchase, i.e. the donor, that is reduced. This results in the reduction of his cash holdings.
2. This impact on net worth does not come from the treatment as a transfer in cash. In fact, in order to record the arrangement, there is no need to impute a flow of cash from the donor to the recipient, contrary to SNA08 § 3.78.
3. The transfer in kind has no impact by itself on the saving and the net worth of both parties.

4. Application to the example of SNA08 § 8.42

In SNA08 § 8.42, an enterprise producing medicines donates some of its output free of charge to a charity. The recording is the following:

Table 5: Accounts for an output of medicines provided free of charge

Enterprise

Uses	Current accounts		Resources
current transfer	x	output	x
income	0		
saving	0		

ΔAssets	Capital account		ΔLiab.
		saving	– 0
B.9	0	B.10.1	0

ΔAssets	Financial account		ΔLiab.
		B.9	0

NPISH

Uses	Current accounts		Resources
income	+ x	current transfer	x
consumption exp.	+ x		
saving	0		

ΔAssets	Capital account		ΔLiab.
		saving	0
B.9	0	B.10.1	0

ΔAssets	Financial account		ΔLiab.
		B.9	0

Note: the impact on the enterprise’ s income stems from the fact that the arrangement is complex, implying several transactions (the output is not equivalent to a negative consumption expenditure). The output could also take the form of an inventory item.

5. How to deal with differences in timing in respect of transfers in kind ?

The existence of differences in timing is a general issue insofar as distributive, or other, transactions are concerned. It is therefore possible to imagine that a transfer in kind takes time, consisting for instance in a promise that is followed later on by the transfer of the ownership of a good or the provision of a service. Despite the fact that, for the sake of simplicity, it could be judged better to record the transfer at the time the good is transferred or the service is provided, etc., it is also possible to record the arrangement as spanning over two different periods. In general, the transfer is likely to be recorded first.

The first example of the transfer of a good already owned by a donor is used in order to illustrate the case. The following recordings are thus possible for the promise:

Donor

Uses	Current accounts	Resources
current transfer	x	
income / saving	– x	

ΔAssets	Financial account	ΔLiab.
	Other acc. payable	+ x

Recipient

Uses	Current accounts	Resources
	current transfer	x
income / saving	+ x	

ΔAssets	Financial account	ΔLiab.
Other acc. receiv.	+ x	

In the following period, the transactions bear on the goods, services that are the purpose of the transfer. The following recordings are thus possible:

Donor

Uses	Current accounts	Resources
consumption exp.	– x	
saving	+ x	

ΔAssets	Financial account	ΔLiab.
	Other acc. payable	– x

Recipient

Uses	Current accounts	Resources
consumption exp.	+ x	
saving	– x	

ΔAssets	Financial account	ΔLiab.
Other acc. receiv.	– x	

This use of the financial transactions "*Other accounts payable/receivable*" may look strange in this case. Usually, although an entry under other accounts payable/receivable may be recorded as the counterpart of a non-financial transaction (e.g. a payment of a wage in advance, assessment of a tax), the claim that arises from that recording is usually extinguished by a cash payment, or by a payment made with another financial asset. But this is not an obligation. It is in the scope of these financial instruments to be the counterpart of non financial transactions.

This recording is logical in the context of the treatment of transfers in kind. It does not imply that a transfer in kind has to be treated as if it was in cash.

6. Recording a capital transfer in kind

Many capital transfers in kind relate to cases of cancellation of liabilities by mutual agreements, for instance in the context of international relations.

However, just for the purpose of the illustration, it is more simple to treat the case of a transfer bearing on a non financial asset. It is thus possible to think of a gift by a government-donor of a fixed asset to another government, or of the gift of a valuable by an individual to a donation.

In this case, all records take place in the capital account, as follows:

Table 6: Accounts for a capital transfer in kind - amount x - from a donor to a recipient

Donor

Uses	Current accounts		Resources
income / saving	0		

ΔAssets	Capital account		ΔLiab.
		saving	0
non financial asset	– x	D.9	– x
B.9	0	B.10.1	– x

ΔAssets	Financial account		ΔLiab.
		B.9	0

Recipient

Uses	Current accounts		Resources
income / saving	0		

ΔAssets	Capital account		ΔLiab.
		saving	0
non financial asset	+– x	D.9	+ x
B.9	0	B.10.1	+ x

ΔAssets	Financial account		ΔLiab.
		B.9	0

Impact on net worth

	Donor	Recipient
net worth	– x	+ x

Like any capital transfer, the above transfer leads to two opposite changes in net worth, that occur through the effect of capital transfers (B.10.1, too).

Contrary to SNA08 § 10.198, there is no need to impute flows of cash in order to show the changes in net worth that affect the donor and the recipient.

Another example could refer to an individual, in the context of the inheritance legislation for instance, making to another individual a gift consisting in a portfolio of securities. Securities being not cash, this would be a capital transfer. In this case, the transfer of the portfolio would be recorded in the financial account, while the capital transfer would be recorded in the capital account, as usually.

6. Conclusions

1. A transfer in kind consists of the transfer of ownership of a good or asset (other than cash), the cancellation of a liability or the provision of a service without any counterpart.
2. Transfers in kind have no impact on the respective savings of both the donor and the recipient.
3. By themselves, current transfers in kind, when completed, do not have any impact on the net worth of the involved parties. If, following a transfer, the net worth of one party – the donor actually – is changed, this is due to the reclassification - from capital to non-capital - of the item that is the purpose of the transfer, a thing which could have occurred otherwise.
4. All in all, it is not right to say that current transfers in kind are treated as if they were in cash, since the impact on saving and net worth are different in the two situations.
5. Capital transfers in kind, like capital transfers in cash, channel wealth. By themselves, when completed, they change the respective wealth (net worth) of the involved parties. However, this impact may be cancelled out if, in the context of a transfer, the item that makes the purpose of the transfer is reclassified from capital to non capital.

6. There is no need to impute flows of cash in the financial accounts for the recordings relating to transfers in kind. There is actually no more need of such imputations than is the case for barter transactions, remuneration in kind or any other transaction in kind. However, as for any transaction, the financial account may be used if there are time-lags between the two transactions that make up the transfer in kind.

Synthesis of the impact of transfers on some variables of donors (D) and recipients (R) depending of the types of transfer

	current in cash		current in kind		capital in cash		capital in kind	
	D	R	D	R	D	R	D	R
income	–	+	–	+	0	0	0	0
consumption expenditure			–	+				
saving	–	+	0	0	0	0	0	0
net worth (holding of assets, including cash)	–	+	0	0	–	+	–	+

1. From the table, it may be seen that capital transfers have the same impact, whether in cash or in kind. They differentiate by the type of asset that is involved in the transfer, which requires to distinguish them.
2. When the current transfer in kind bears on an output of the donor - which, in particular may take the form of an inventory item -, things are less simple because the transfer arrangement merges different events (transactions and possible other flows) that blur the perception. Going through imputed cash flows does not solve the difficulty.

CH09 - review

This chapter raises some important issues, of four types.

A. Conceptual issues

B. Editorial issues

C. Substantial points, mistakes and wording issues

D. Other points, mistakes and wording issues

Finally, by difference with SNA93, the final consumption expenditure of NPISHs is no longer deemed to be, by convention, totally individual. A part of this expenditure may be considered as being collective and, accordingly, is treated as actual final consumption of NPISHs, and it does not make the purpose of a social transfer in kind to households. Examples refer to research activity. This change was of course not part of the updating, nor it appeared in the first version of the chapter.

This change was introduced in an interim version relating to a part of chapter 8, enclosing also some paragraphs of chapter 9. This version was the object of an e-consultation which, however, did not bear on the specific issue of NPISHs and did not request an approval on this issue. The topic was just mentioned in passing in the one-page introductory note of the consultation. Few answers were made to this consultation, most of them stemming from international organisations.

In other words, this change was never formally approved by the AEG. Since few changes are documented, if any, it is even likely that many AEG members are not fully acknowledged with this change that, being hardly sketched in the introduction, can only be discovered through a careful reading of the chapter.

The issue is not so important and very good arguments can support the introduction of this change. It is also possible that it is justified by the evolution of the real economy since the issuance of SNA93: it is true that large NPIs actually exist now that undertake research with budgets that are more important than those of many governments

However, this is typical bad practice.

A. Conceptual issues

There are two paragraphs that contain for one, a conceptual mistake, for the other, a certain wording confusion that leads to approximate statements.

§ 9.11: relations between saving and the current external balance

§ 9.11 states the following:

> "As well as saving, the current external balance is shown in both accounts. The current external balance is the balancing item of the current account for the rest of the world. It is treated as an analogue of the saving for domestic sectors and is necessary to ensure that all income in the total economy is exhausted either by final consumption or saving."

This paragraph contains:

- one factual mistake
- one conceptual mistake
- two wording approximations

1. Factual mistake

The current external balance <u>is not shown</u> in the use of income account, it does not belong to this account. The use of income account is relevant only for resident units, and thus for institutional sectors. The current external balance does not appear in the accounts of any resident unit, of any sector or of the economy.

To show the current external balance vis-à-vis saving - of the sectors and of the economy - does not mean that it is part of the account itself. It is shown aside the use of income account. The current external balance is equivalent to saving for the Rest of the world (RoW), that is for the current transactions occurring between the economy and the RoW.

2. Conceptual mistake

It is not clear what is meant by:

> the current external balance is necessary to ensure that all income in the total economy is exhausted either by final consumption or saving

It is the definition of saving by itself that ensures that the total income of the economy is exhausted by final consumption and saving since, at this level, saving is defined as the difference between income and final consumption. For any resident unit, income - possibly adjusted for the recording of pension entitlements – is exhausted by final consumption and saving. This is therefore true for any aggregation of resident units, that is for sectors and for the economy. At any level, it is not necessary to implicate the external relations.

This may be checked by considering the figures in both tables 9.1 and 9.2, that show that there is no relation between saving and the current external balance, and that the latter is not necessary to achieve the equality: income equals final consumption plus saving, for the total economy.

In fact, the current external balance represents a step in the description of the financial relations that arise from the current non financial transactions between the economy and the RoW. When positive, it is the main external source of financing for the capital formation of the economy. If abstraction is made of capital transfers, the following equality is well known in macro-economics:

external balance = saving *minus* capital formation [9]

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9. See, for instance: *Macroeconomics*, G. N. Mankiw, Worth Publishers – Chapter 8: The open economy

This leads to the fact that the net lending (borrowing) of the economy is equal to the net borrowing (lending) of the RoW. The net lending of the RoW is equal to the sum of the current external balance and of the balances of capital transfers and of net acquisitions of land.

In the example followed in the SNA, it is the national economy that finances the RoW.

3. Wording issues

The current external balance is the balancing item of the current accounts of the RoW. There is no single current account for the RoW. Two accounts make up the current accounts of the RoW. It is important to be precise for the comfort of the reader, who could be misled by an approximate terminology.

Stricto sensu, "domestic sectors" is a pleonasm. It is necessary to be very rigorous in a reference manual such as the SNA.

§ 9.30: relation with the concept of income

Full quotation of the paragraph.

> "If saving is zero, that is, if (in the absence of capital transfers) final consumption expenditure equals disposable income plus the change in pension entitlements, the institutional unit is not obliged to dispose of any assets or increase any of its liabilities. As already indicated in chapter 8, disposable income can, therefore, be interpreted as the maximum amount that an institutional unit can afford to spend on final consumption goods and services in the accounting period without having to reduce its cash, liquidate other assets or increase its liabilities. The sum of disposable income plus the change in pension entitlements can thus be seen as corresponding to the economic theoretical concept of income."

Three remarks:

1. The text between brackets – i.e. "in the absence of capital transfers" -, should be deleted. Saving is indeed equal to zero if final consumption expenditure equals disposable income plus the change of pension entitlements. Capital transfers have nothing to do with this assertion. The reference to capital transfers should come later on in the sentence, for instance at the end of this long sentence.

2. The last sentence should also be deleted. Abstraction made of pension entitlements, disposable income cannot be seen as corresponding to the economic theoretical concept of income.

   What is actually said in § 8.24 is the following:

   > [Disposable income] is equivalent to the economic theoretic concept only when the net worth at the beginning of the period is not changed by capital transfers, other changes in the volume of assets or real holding gains or losses.

   This is not exactly what is reproduced here. Moreover, the difference in wording is not due to pension entitlements.

   What has simply to be said here is that "disposable income can be interpreted as the maximum amount that an institutional unit can afford to spend on final consumption goods and services in the accounting period without having to reduce its cash, liquidate other assets or increase its liabilities."

3. However, it is true that the existence of significant movements relating to pension entitlements implies that this sentence is not so right, at the level of institutional units or sectors, where it is defined in § 8.24.

   Is it possible to say something as ?

   > "disposable income, after having been adjusted for the changes in pension entitlements, can be interpreted as the maximum amount that an institutional unit can afford to spend on final consumption goods and services in the accounting period without having to reduce its cash, liquidate other assets or increase its liabilities."

   It does not sound so smart however. In addition, for a pensioner, it looks strange since the decrease in pension entitlements represents the main source of financing for consumption, so that when the disposable income has been adjusted, it remains often nothing !

Therefore, another possibility would be to take the reverse point of view, and to state something as:

> "disposable income, as defined in the SNA, can be interpreted as the maximum amount that an institutional unit can afford to spend on final consumption goods and services in the accounting period without having to reduce its cash, <u>liquidate assets other than pension entitlements</u> or increase its liabilities."

Given the increasing weight of pensions in the income of some economies, the text should also be amended in chapter 8. However, care must be taken about the different points of view of individual units, and of the total economy.

B. Editorial issues

Two accounts ? rather two versions of one account

By difference with SNA93, the present chapter decides to refer to two accounts, introducing a plural in the title of the chapter, and addressing directly that choice in the 1st paragraph.

As it is a deliberate choice, this is worth being commented.

In chapter 8, the title has also been changed in order to present two redistribution of income accounts. There are two such accounts, indeed, since the redistribution of income in kind account comes sequentially after the secondary distribution of income account, starting with the disposable income as first entry.

On the contrary, as explained in § 9.19, the use of income account and the use of adjusted disposable income account are "neither sequential nor hierarchical". The second one is not derived from the first one, and actual final consumption is not shown as derived from final consumption expenditure, although it may actually be so derived. Both accounts have the same balancing item.

This is why it should be better to refer to two versions of a single account.

Main editorial concern about this chapter: the introduction

Once again, the choice to considerably increase the size of the introduction, already not well justified, proves to be not so convincing.

In such a volume, where national accounts are presented through the sequential description of accounts, what does one expect from an introduction to the use of income account ?

- to have a presentation of the account, in its two versions - rather than two accounts, see above: where it comes from, where it leads to, with a clear indication of the balancing items;
- to be made familiar with the terminology, in order to learn what one is going to be faced to in the chapter;
- to understand the relevance of the accounts for the various sectors.

Instead of that, the present introduction wants to be more ambitious. In reality, it is not possible, in an introduction, to summarise and to condensate what actually needs a full chapter to be explained. Finally, some key-terms are defined. However, these definitions are too much, or not enough. For instance:

- everyone, about this account, expects to be told many things about final consumption: however, why providing a short definition, not of consumption itself, but of consumption goods and services (§ 9.2), that brings few information and is far from exhausting the topic ? in addition, this notion is of no help to understand the rest of the introduction, instead it was already used in § 9.1;
- §§ 9.3 and 9.4 are useless at this stage: in addition, they are just put there, without any explanation of their link with the two versions of the account (it is said nowhere in the introduction that the actual final consumption of households consists only of individual consumption items); from § 9.6, one can guess that some individual goods and services are the objects of social transfers in kind, that's all;
- on the contrary, the definition of individual and of collective goods and services will be missing when needed in the heart of the chapter; all in all, it is better to define concepts and terms only when needed;
- § 9.5 is too much at this stage;
- a long reference to expenditure is provided in § 9.6, although it would be better placed in sub-section 1, since the symmetrical reference to actual consumption is provided in sub-section 2; in

fact, in the introduction, we just need to be aware of the existence of 2 concepts of final consumption, that explains the existence of 2 versions of the account, that's it;

- on the contrary, actual consumption is not clearly introduced: its existence is rationalised at the end of § 9.6, but it is not named, while it is defined briefly at the end of § 9.7, without an unambiguous reference to § 9.6;
- the notion of acquisition is referred to and used in § 9.3 and 9.7, without being defined;
- the wording of § 9.8 is complicated and hard to understand :

  "In the redistribution of income in kind account, […], the adjusted disposable income of households is derived from their disposable income by adding […]. Corresponding to the redistribution of income in kind account, is the use of adjusted disposable income account in which the actual final consumption of households is derived from their final consumption expenditure by adding the value of social transfers in kind receivable, while the actual final consumption of government units and NPISHs is derived by subtracting the value of social transfers in kind payable"

  Phew !

Finally, saving is referred to as the balancing item only in § 9.9, in a § that starts with the adjustment entry for pension entitlements, that is a paragraph where nobody would expect to find saving. In addition, saving is asserted to be the same in both versions of accounts in a sentence starting by "It follows" that does hardly follow anything, since in fact, the evidence was implicitly provided in § 9.8, where this sentence should be.

As a whole, this introduction is more confusing than clarifying, and picks up some paragraphs that would be better placed inside the chapter itself.

Is it possible to suggest to go back to the type of introduction of SNA93 ?

Section B: expenditures, acquisitions and consumption of goods and services – change in the title and content

The equivalent section in SNA93 is entitled: **Expenditures, acquisitions and uses.** This heading was actually in accordance with the content since, from the first sentence, it is stated that:

> The distinction between final consumption expenditure and actual final consumption depends on the general distinction between expenditures on, and acquisitions of, goods and services, a distinction that applies to other types of activities, such as production and capital formation, as well as consumption

1. The purpose of that section in SNA93 was therefore explicitely more general, even if not fully achieved. The distinction between expenditures, acquisitions and uses may be applied to other transactions than consumption. It is more specifically relevant for capital formation and, to a smaller extent, for production. For instance, considerations about own account production are of general interest.

   It was thefore possible to refer to this section from other parts of the SNA. As it stands now, this is no longer possible. It would therefore be necessary to duplicate this section in other chapters, and to adapt it at each purpose. It is doubful that this has been done.

   Of course, most of the section is specifically relevant for final consumption, but it is regrettable that the general purpose has been left. Finally, from a careful reading, it appears that some residual references are made to other activities than only consumption, which looks sometimes not understandable (9.41 eg).

2. In confining the section B to the only topic of (final) consumption, the chapter has lost some important topics:

   - the specification that sales of existing goods are treated as negative expenditures (SNA93 9.31) has disappeared from the chapter. It is a general statement that, normally, is also dealt with in the chapter relating to the capital account; however, it would be useful that this idea be reproduced here, redundancy helping readers to be more familiar with concepts; the point is that there may be sales of existing goods even when fixed assets are not involved: foreign trading of used cars is current, for instance;

- the idea that some transactions are undertaken by some units on behalf of other ones (SNA93 9.23), in such a way that the expenditure is not necesarilty attributed to the paying unit has also disapeared.

It is at least necessary to restore the paragraph explaining that sales of existing goods are negative expenditures, even for consumption goods.

It is necessary to explain that the issues dealt with under consumption – sub-section 3 - may also apply to uses in general, and provide examples of that.

Section C: Measuring the value of non-monetary transactions indirectly – new section

The purpose of the new section C is to deal in fact with imputed expenditures. The issue is the following one:

- the notion of imputed expenditure is of general purpose
- however, it is mainly relevant for households' final consumption

In SNA93, this dilemma is solved in dealing shortly with the topic in section B *Expenditures, acquisitions and uses*, and in developing it more in depth under Households final consumption expenditure, in section D, which certainly creates repetition.

The choice made in SNA08 consists in "extracting" the issue, both from the section B-Expenditures, acquisitions and consumption and from section D-Households final consumption expenditure. Then the issue is dealt with in a specific section, that is now Section C.

This raises two concerns:

1. As, for scruples expressed in § 9.49, it seems impossible to retain the natural title of section C that should be "Imputed expenditures", the title that has been chosen - Measuring the values of non-monetary transactions indirectly – is completely meaningless and largely irrelevant.

   In fact, this section deals only in part of problems of measure and valuation. The main issue, in this field, is to explain that expenditures include not only obvious expenditures, the ones for which a buyer pays cash or equivalent in order to get possession of goods and services, but that it includes also some other components for which values have to be imputed. It is not so obvious to consider own capital formation as making up a single expenditure, where people will rather observe a stream of expenses.

   This question is not so well addressed in SNA93, where the wording of § 9.27, that is however partly restored in SNA08 § 9.46, is not so clear. However, both actual expenditures and imputed expenditures standed under a common heading, thus creating a kind of continuity.

   The reader is largely lost in SNA08, where it is difficult to understand from the title of section C that it actually covers imputed expenditure, even if the term is mentioned in §§ 9.47-9.49, and that this category of expenditure has to be added to the previous one, that may be called actual expenditure, in order to make up together expenditure as a whole.

   Very few people, indeed, will realize that § 9.46 comes in echo to § 9.33, which is very far from it, and that they have now come back to the green area of expenditures, that they already left a while ago to cross the arid lands of acquisitions and consumption [10] !.

2. It is not clear, in SNA08, that household final consumption expenditure covers both actual expenditure items and imputed expenditures item, such as those relating to income in kind and to own account production.

   First because as explained above, it is not clear that imputed expenditure is part of expenditure.

   Then, because, it is hard to realize that section D covers also things that were dealt with in section C. This is however said in § 9.57, but the reader has to be very careful to fully assimilate it.

   In addition, many readers have access to substance through tables of content, where nothing appear that makes allusion to imputed expenditure.

10. Where they nearly burned !

Conclusion: the choice made in this chapter is clearly to avoid repetitions. This leads to editorial solutions that are not convincing. In general, it is a mistake, in such a work, to cancel repetitions. Redundancy, instead, is very useful in communicating. For an isolated reader, it provides comfort.

Proposal: at least to change the title of section C in order to be more explicit (Expenditures for which values have to be imputed ?)

to be more explicit/insistant in § 9.57

maximalist: to merge C and D

Former SNA93 section C: Consumption goods and services

This short section disappeared to be dissolved into the introduction. It contains the fundamental distinction between individual and collective consumption.

Unfortunately, now, when the reader needs actually these notions, that is when he arrives to the actual content of final consumption for the various units, he has forgotten where they are.

Proposal: to delete these notions from the introduction, and to restore the section where it has to be.

C. Substantial points, mistakes and wording issues

Change in pension entitlements: §§ 9.21 - 9.25

Two issues are dealt with here:

- the wording of this difficult point in the involved paragraphs
- the designation of the transaction itself, that should be changed into:

Adjustment for changes in pension entitlements

The two points are dealt with in turn.

1. Wording of the issue

In the changing context of the treatment of pensions, the overall wording is welcome. However, things may be improved and some mistakes are encountered.

§ 9.21 when the liabilities for these schemes can be integrated into the sequence of accounts and when they only appear in a complementary table

it is common to use the expression "central framework" to refer to the so-called "core accounts"

it is then possible to be more precise, such as:

> when the liabilities for these schemes are recognised as financial assets in the central framework and when they only appear in a complementary table

and the following sentence may become:

> In this chapter, the expression "pension scheme" is used to cover those parts of social security schemes for which liabilities are recognised as financial assets in the central framework, and all other employment-related schemes

in order to be completely unambiguous in the following, it may be useful to precise something as:

> On the other hand, the expression "social security" is limited to social security schemes the liabilities of which are not recognised (as financial assets ?) in the central framework

§ 9.22 The payments of pension contributions into the **funds** and the receipts of pensions by pensioners constitute the acquisition and disposal of financial assets

readers may be puzzled by the use of both terms "schemes" and "funds"; however, the difference is clearly explained in chapter 17; here, it seems possible to say that contributions are paid to the schemes – this is done in § 9.23 -, whilst "funds" must be used only when making actually reference to the units as institutional units; all in all, the following wording may be used:

> The payments of pension contributions into the funds managing the schemes and the receipts of pensions by pensioners constitute the acquisition and disposal of financial assets

§ 9.23 the payments of pension contributions to **all** pension schemes and to social security and the receipts of pensions by pensioners' households under both pension schemes and social security are recorded in the secondary distribution of income account

delete "all": one may wonder why this precision here, and why not later on

§ 9.24 The rationale for treating pension contributions and benefits as current transfers is that pension provision is essentially a redistributive process among households and over time

this rationale is a bit contradictory:

- strictly speaking, to consider pension provision as a redistributive process over time implies to treat it as a system of financial claims/liabilities
- while to consider it as a redistributive process among households implies to treat it as a system of distributive transactions (contributions and benefits)

in fact, the rationale for treating pension contributions and benefits as current transfers – a wording that is a bit pleonasmic – has already been clearly stated in § 9.22

§ 9.24 As a whole, the paragraph is not very clear and convincing; in addition it contains mistakes.

What is at stake ?

- in § 9.24, we turn towards pension schemes only, as defined before in § 9.21, where pension assets are recognised : this should be clearly stated, and the exact heading of the classification of financial assets – i.e. “pension entitlements” – introduced (however, it may have been introduced in 9.21 or 9.22)
- this recording implies a certain measure of saving that we want to record as saving in the central framework; however, as contributions and benefits are also recorded as transfers, they would change this saving if no adjustment was brought
- thus, the need of the adjustment

Three remarks:

- it is better to avoid saying: “to the extent that contributions and benefits are not exactly equal, there is an impact on household saving” or : “if households as a whole pay more contributions than they receive as benefits, their saving is reduced by this difference”

  since we do not want to show this saving
- the same with: “Similarly if household benefits exceed their contributions, saving does not reflect the fact that the negative change in entitlements represents a reduction in net worth”

  which saving is referred to here ? the right one, which is consistent with the recognition of pension entitlements ? or the non adjusted one, where benefits and contributions are transfers ?
- it is not right to say that: “the change in pension entitlement is shown in the financial account as an addition to net worth of households”

  when pension entitlements are recognised in balance sheets and their changes recorded in the financial account, it is not true that the change in pension entitlement is an addition to net worth; when paying contributions, participants in the pension scheme simply exchange cash against another form of financial asset, and the reverse for benefits; their net worth is not changed; only the amounts of their claims under pension entitlements are modified

  in general, the financial accounts show nothing about changes in net worth

All in all, the best is to keep the wording of SNA93 § 9.16, with amendments to fit SNA08 rules.

§ 9.25 the last row:

> *minus* the total value of the pensions paid out as social insurance benefits by **private funded** pension schemes

is wrong: it is the terminology of SNA93

the right one could be:

> *minus* the total value of the pensions paid out as social insurance benefits by pension schemes

§ 9.21 other small wording amendments:

> the liabilities of the units ultimately responsible for paying the pensions

delete “ultimately”, for “units responsible for paying the pensions”: in some schemes, over the units responsible for pensions, there may be other units – employers for instance – who are the ultimate responsible; participants have no direct claims on them, only funds may have claims on the ultimate responsible

In some countries, government assumes responsibility for paying pensions **even** for non-government employees and these pensions are paid via social security funds

this use of “even” sounds strange: it looks like if it was an anomaly; social security schemes are largely spread over the world and well defined

2. Terminological issue for “Pension entitlements”

The financial assets that relate to pension schemes in SNA08 are called “Pension entitlements”. According to a current practice in national accounts, the same heading “Pension entitlements” refer both to assets/liabilities in balance sheets, and to transactions – acquisitions/disposals – in financial accounts.

It is also current practice to use the term “change in” to refer to the balance of the involved financial transactions. Here, the term “Change in pension entitlements” refer to the difference, positive or negative, between acquisitions and disposals of “Pension entitlements”, as recorded in financial accounts. However, change may also be understood as meaning the difference between successive balance sheet positions.

What is not current practice is to use the same term or heading to refer both to a non-financial transaction and to a financial transaction, even if their values are equal. This is made to avoid any confusion.

Therefore, to use “Change in pension entitlements” in order to refer to the adjustment item that is recorded in the use of income account could create confusion with the observed change in “Pension entitlements” observed in the financial account.

This is why SNA93 used the term “Adjustment for the change in the net equity of households in pension funds” to refer to the adjustment item, and to not confuse it with the change in the “Net equity of households in pension funds”, despite the fact that the two amounts are deemed to be equal.

It is suggested to use the same good practice in SNA08, and to call the adjustment item:

Adjustment for changes in pension entitlements

which is, however, shorter than the equivalent in SNA93.

Moreover, in SNA08, the two things are not assumed to be always equal. The change in “Pension entitlements” that is derived from the financial account is indeed likely to be different from the corresponding adjustment item, recorded in the use of income account.

In SNA08, in effect, the financial assets of households “Pension entitlements”, as recorded in their balance sheets, may change under the impact from three types of flows:

- acquisitions made by means of contributions, including contribution supplements, and disposals under pension benefits
- capital transfers, for instance from employers to the pension funds managing the schemes
- other flows

Both contributions/benefits and capital transfers have an impact on the amounts shown in the financial accounts.

Attempt of rewriting of §§ 9.21 - 9.25

4. Adjustment for change in pension entitlements

9.21 As individuals accrue pension entitlement throughout their working lives, the corresponding entitlements become their assets and the liabilities of the units responsible for paying the pensions. Pensions due under social assistance are excluded because the amounts due do not necessarily accrue in a predictable fashion over time or for predictable reasons. Similar arguments apply to benefits due under social security schemes that, in some countries, assume responsibility for paying pensions to large parts of the population. There is detailed discussion in part 2 of chapter 17 about when the liabilities for these schemes are recognised as financial assets in the balance sheets of the central framework and when they only appear in a complementary table. In this chapter, the expression "pension scheme" is used to cover those parts of social security schemes for which liabilities are recognised as financial assets, and all other employment-related schemes. On the other hand, the expression "social security" is limited to social security schemes the liabilities of which are not recognised as financial assets.

9.22 Pension schemes, as defined in § 9.21, are treated in the System as having liabilities towards the households with claims on the schemes. These financial assets are called "Pension entitlements" in the classification of financial instruments. The payments of pension contributions into the funds managing the schemes and the receipts of pensions by pensioners constitute the acquisition and disposal of financial assets. However, this may not accord with the perception of the households concerned, especially pensioners' households, who tend to regard the pensions they receive as income in the form of current transfers. Moreover, pensions received under social security schemes and those received under social assistance are in fact treated as current transfers in the System

9.23 In order to present income information that may be more useful for analysing the behaviour of the households concerned, the payments of pension contributions to pension schemes and to social security and the receipts of pensions by pensioners' households under both pension schemes and social security are recorded in the secondary distribution of income account as social contributions and social insurance benefits, respectively. They therefore affect the level of disposable incomes of households.

9.16. However, in order to reconcile this treatment with the fact that households are treated in the financial accounts and balance sheets of the System as having claims under pension entitlements towards pension schemes, it is necessary to introduce an adjustment item to ensure that the balance of pension benefits over pension contributions [11] does not enter into household saving. In order to achieve this, it is necessary to add back pension contributions to, and subtract pension benefits from, the disposable income, or adjusted disposable income, of households recorded in the secondary distribution of income accounts in order to get back to a figure for the saving of households that is the same as what it would have been if pension contributions and pension benefits had not been recorded as current transfers in the secondary distribution of income account.

9.25 An item described as Adjustment for change in pension entitlements therefore appears in both the use of disposable income account and the use of the adjusted disposable income account. It is equal to:

	the total value of the actual and imputed social contributions payable into pension schemes
plus	the total value of contribution supplements payable out of the property income attributed to pension fund beneficiaries
minus	the value of the associated service charges
minus	the total value of the pensions paid out as social insurance benefits by pension schemes.

In absence of capital transfers, this adjustment item is equal to the change in pension entitlements recorded in the financial accounts of households. It must be added to the disposable income, or adjusted disposable income, of households before calculating saving in order to reconcile the saving of households with the change in pension entitlements in the financial account of the System. Opposite adjustments are, of course, needed in the use of income accounts of the insurance enterprises, pension funds or employers maintaining pension schemes. These adjustments can affect non-resident institutional units, both households and pension funds.

11. It has to be checked that in absence of adjustment, it is the excess of pensions over contributions which would enter saving, and not the contrary, as stated in SNA93.

9.29

> ***"Saving represents that part of disposable income (adjusted for the change in pension entitlements) that is not spent on final consumption goods and services.*** It may be positive or negative depending on whether disposable income exceeds final consumption expenditure, or vice versa. Assuming that saving is positive (and in the absence of capital transfers), the unspent income must be used to acquire assets (possibly only an increase in cash) or reduce liabilities. If saving is negative, some financial or non-financial assets must have been liquidated, (including a run down of cash) or some liabilities increased. Thus, saving provides the link between the current accounts of the System and the subsequent accumulation accounts"

1. It is better to avoid brackets, as far as possible. Cf. 1st sentence.
2. Delete the sentence in brackets: "in absence of capital transfers". It suggests that the existence of capital transfers could modify the analysis. If it is felt necessary to mention capital transfers, which is certainly right, it is possible to be completely explicit, leading to something like:

   > Assuming that saving is positive, the unspent income must be used to acquire assets, reduce liabilities or finance capital transfers.

   Receivable capital transfers, on the other hand, do not change the fact that it is possible to acquire assets and reduce liabilities, they just increase the involved amounts.

   The reverse idea may be introduced at the end, about negative saving: "if saving is negative, in absence of received capital transfers, etc …."

   The reference to cash is useless.
3. For the comfort of the reader, it is better not to compact the text, and to be fully explicit. This would lead to the following text (SNA93 § 9.19 with the above change):

   > "Assuming that saving is positive, the unspent income must be used to acquire assets, reduce liabilities or finance capital transfers. In so far as unspent income is not used deliberately to acquire various financial or non-financial assets, or to reduce liabilities, it must materialize as an increase in cash, itself a financial asset. If saving is negative, in absence of received capital transfers, some financial or non-financial assets must have been liquidated, cash balances run down or some liabilities increased. Thus, …"

9.40 This paragraph undertakes an ambitious attempt to achieve a general definition of consumption, which would encompass both final and intermediate consumption. Therefore, it defines consumption as "the act of completely using up the goods and services", either in a production process – intermediate consumption - or in a consumption process – final consumption.

One may actually wonder if this is so relevant:

- when dealing with production process, a distinction is drawn up depending if the inputs which enter the process are used up during the current period, or if they are used up over several periods
- the intermediate inputs constitute the first category; as a consequence, when used up, they can never come back to existence and, for instance, be resold; only military goods, because of their ambiguous status, could be treated as intermediate inputs while being object to further resale, however it was a well-known exception;
- fixed assets, on the other hand, while being used up in production processes, have residual values and can be subject to second hand sales, at reduced value.

This is not at all the same situation for final consumption goods and services. At the same time, they are deemed to be fully consumed when acquired, but, for durables, they can also be resold some periods later. They have therefore an ambiguous status, showing, at least for some of them, both features of intermediate inputs and of fixed assets.

Therefore, it may be not so relevant to say that consumption goods and services are used up in the consumption act, since "used up" would imply their complete destruction, which is not true, at least for some items. That is indeed what is more or less explained in § 9.44 later on, which precisely expresses why consumption cannot be fully considered as an activity, and formulates the conditions that would be necessary to be so considered.

In other words, there seems to be some contradictions between 9.40 and 9.44. It would be better to be completely explicit.

9.89 2nd sentence

> "The value of government final consumption expenditure on non-market goods and services is not necessarily exactly equal to the value of government output of these goods and services. <u>The values of these expenditures are equal to the imputed values of the non-market outputs less the value of production for own capital formation</u> and less the values of any receipts from sales."

The sentence makes reference to the non-market outputs, which is also what the 1st sentence does, that refers to non-market goods and services. Own capital formation is therefore already excluded from these non-market outputs.

Considering a government (institutional) unit:

- its total output is T
- it consists in the sum of three parts:
  the output of its non-market establishments A calculated by the sum of costs
  the output of its market establishments B
  the output for its own capital formation C (usually assumed to be produced in separate establishments)
- the output A – establishment concept - may include non-market output A1, as principal product, and market output A2, as secondary product: A1 is calculated as residual, as A minus A2
- the non-market output A1 is the value of the non-market goods and services produced by the government unit
- the value A1 may be further divided between A11 and A12, A12 consisting in the receipts from sales of the non-market goods and services (sales paid by customers at not economically significant prices): A11 is calculated as residual
- in this context, the government final consumption expenditure on non-market goods and services amounts to A11.

Other contexts are possible:

- it is possible to consider that non-market establishments have a secondary own account production, in which case it has to be subtracted; however, in this case, it is not possible to speak of non-market outputs (but perhaps of non-market output)
- or it is possible to refer to the government unit as a whole

In this last case, which may be the easiest one for purposes of exposition, it is possible to say that:

> "The values of government final expenditure on non-market goods and services is equal to the total value of government units **output** less the value of production for own capital formation and less the values of any receipts from sales. These receipts may be derived from sales of some goods or services at prices that are not economically significant or from sales of a few goods or services at prices that are economically significant (sales of secondary market output)."

take care: output is singular

9.91 makes a similar mistake

If the starting point is the value of the non-market output of general government:

- neither the output of own capital formation has not to be deducted
- nor the sales at economically significant prices

have to be deducted, since they do not form part of the non-market output of government (institutional) units [12].

12. Unless if, in chapter 6, it was stated that production for own final use is part of non-market production, which would be a step back from the New-York 2007 conclusions.

If it was not the case, it would be no sense to specify non-market for the output of government.
Finally, the formula in § 9.91 holds if the starting point is the total value of the output of government.

D. Other points, mistakes and wording issues

9.2

> "A consumption good or service […] is used […] for the direct satisfaction of individual needs (or wants) … "

Why putting "wants" between brackets ? in § 9.18, too. And sometimes not (§ 9.3). Does it mean something ? Brackets should be avoided at a maximum.

9.4 the relevant paragraphs that ought to be referred to are §§ 9.93-9.98.

9.6 end of the §

It is a bit regrettable that, while the § concludes that

> "it is necessary to recognize that the goods and services are in fact transferred to, and used by, households",

it is not indicated that this leads to the concept of actual final consumption. At this point of the chapter, the term has not yet been introduced, if the idea was. This is made in the following § 9.7, through a formal definition. However, the reader would probably like to be ensured that the concept of § 9.7 meets the intention of § 9.6.

9.9 3rd sentence

> "It is calculated […] as adjusted disposable income adjusted for the change in pension entitlements less actual final consumption"

adjusted adjusted sounds curious !

9.13 1st sentence

> "the use of disposable income account contains only three main entries …"

Why three main entries ? why only ? There are exactly three entries. Does this imply that there could be more entries in a less simplified version ? The reader, especially a beginner, may be puzzled by this kind of imprecision, when considering both the text and the table.

9.16 1st sentence

> "the use of adjusted disposable income account also contains three main entries …"

Same remark as for 9.13.

9.16 last sentence

> "The account is relevant mainly for the general government, NPISHs and household sectors as well as for the total economy."

It is relevant only ! That is a difference with the use of disposable income account which is useful for all units/sectors, to show saving, but actually relevant only for some (so mainly). In addition, any sector may be involved by the adjustment for pension entitlements.

There is no real need to mention the total economy, in general. In addition, it is rightly told in chapter 8 (§ 8.31) that the distinction disposable income/adjusted disposable income is irrelevant for the total economy. As the distinction consumption expenditure / actual consumption is no more relevant for the total economy, some may wonder if it is not a bit hard for the account to be relevant (see also figures in the tables).

9.19 end of paragraph

> "The values of the goods and services involved in social transfers in kind are recorded in two different ways in the System, both of which represent uses of resources by government units or NPISHs:
>
> a. As final consumption expenditure, payable by government units or NPISHs; and
>
> b. As social transfers in kind, payable by government units or NPISHs but receivable by households and recorded as part of their actual final consumption "

The end of b, though not actually wrong, may be misleading. In fact, social transfers in kind:

- are payable by government units
- are receivable by households
- are not part of their actual final consumption: social transfers in kind are distributive transactions, while consumption is a category of transactions in products; even when their values are equal, the things should be distinguished.

In general, it is a mistake to confuse the transfers and the objects of the transfers. Things are never confused for transfers in cash, because anyone is acknowledged about the distinction non financial transactions / financial transactions. It is no more relevant to do the confusion for transfers in kind.

9.33

Given this definition of expenditures, it is quite a pleonasm to use the expression "expenditures on goods and services", or it would be useful to indicate whether there exist other types of expenditures.

9.33, 9.34 and 9.46

Taken together, these paragraphs make the reader uneasy insofar as remuneration in kind is concerned. This was already the case in SNA93. What is at stake is the following:

- from 9.33, it comes that employees incur liabilities for goods and services provided as remuneration in kind (they are the "buyers" of the goods and services !)
- from 9.34, it comes that these liabilities arise when goods/services are sold/delivered, which implies that remuneration in kind is paid before the provision of labour
- from 9.34, it comes that the liabilities of employees are discharged by the provision of labour they undertake
- however, remuneration is also defined in terms of the liabilities incurred by employers for labour performed

Do we have to understand that all these claims / liabilities are created and extinguished simultaneously ? Probably. Anyway, this presentation in terms of claims and liabilities for remuneration in kind is borderline. But it works !

This is just an interrogation.

9.37 "Acquisitions are valued at the transaction prices paid by the units that incur the expenditures. In most cases, the transaction price is the market price."

Inserted in a general definition of acquisitions, this wording may introduce a confusion between two issues:

- the values that are to be attributed to acquisitions
- valuation issues

What is at stake here refer to values, not to prices. Acquisitions simply "recover" the values of the expenditures that are allocated to them.

So, the only issue here is first to list the expenditures that make up the acquisitions. Of course, it is also possible to indicate later on that the prices of acquisitions are identical to the prices of the relating expenditures. But not here.

On the contrary, there may be valuation issues for expenditures. However, they should not be dealt with here. Instead, it is a too short statement to say that the valuation is at "transaction prices", and it is probably wrong, since it is sometimes necessary to adjust transaction prices. In addition, the reference to market price is too vague: expenditures are valued at purchaser's prices (that may include adjustments from both transaction prices and the market price received by the producer).

9.39 "Accordingly, the values of the goods or services received are actually recorded as expenditures by the institutional units or sectors that acquire them. The institutional units or sectors making the transfer record negative acquisitions."

Put together, the two sentences are contradictory. It is right to say that the values received are recorded as expenditures. This implies that the units making the transfers record negative expenditures. If not, in such subtle developments, the reader could wonder what to understand (is there a hidden mystery ?).

> "The same recording is adopted for transfers of capital; that is there are no capital transfers in kind in the System."

First, why to tackle capital transfers here, where everything deals with consumption ? In addition, it is not right to say that there is no capital transfers in kind in the System. If it was the case, why would it be a specific recording ? To record a transfer **and** a negative expenditure is to record a transfer in kind.

See also this issue in chapter 8.

9.40 This interesting semantic development may be extended to consumption of fixed capital, which has happily not been renamed amortization. Fixed capital items are actually used up in a production process over several periods.

9.44 For a good understanding of the content of this paragraph, it may be useful to keep the first sentence of SNA § 9.39:

> "The activity of consumption consists of the use of goods and services for the satisfaction of individual or collective human needs or wants"

in specifying that it addresses here final consumption only.

It would be better to group together 9.39, 9.44 and 9.45.

9.54 and 9.56 are largely identical. Is it useful since they are so close of each other ?

9.63 reference is made to the distribution of primary income account. The correct name is: the primary distribution of income account

9.66 "Care must be taken in respect of any taxes paid on housing. Taxes such as value added tax are rarely paid on housing services, but if they are payable, they should be excluded from the value of owner-occupied housing if the owner-occupier is exempt from payment".

Isn't it more simple to refer to basic prices ?

9.67-9.68 The repetition of the expression "do-it-yourself" may lead to confusion. The reader does not easily understand at first reading what is different between 9.67 and 9.68. Insistence should instead be put more clearly on the opposition, if relevant, between "carried out by tenants as well as owners" and "expenditures incurred by owners", the "do-it-yourself" being cancelled in 9.68.

The sentence : "the only value added … is operating surplus" is strange, though correct.

Last sentence: "imputed rent of .." or rental ?

First sentence "expenditures that owners, including ~~an~~ owner-occupiers".

9.73 last sentence

> "The timing of imputed expenditures (see section C) is when the goods involved are made available to the household"

This precision is useless. There is no specific rule to apply to imputed expenditures that relate to ownership of goods or delivery of services. Does “made available” mean something specific ? Why only a reference to goods ?

9.76 All that has been already defined in section C, at least according to the heading of the section. See § 9.56.

9.82 definition

“Household actual final consumption consists of the consumption goods and services acquired by individual households”

If this terminology is used in standard definitions such as the above one, it should be specified somewhere in the SNA (chapter 4 ?) that the meaning of the expression “Individual households” refers to households taken one by one, by opposition to the whole of households making up the so-called community, who is the subject of collective consumption.

9.83 (same for SNA93)

“The values of expenditures on social transfers in kind incurred by government units or NPISHs are equal to the imputed values of the goods or services supplied to households …”

The expression “expenditures on social transfers in kind” is not satisfying. It is better to say: “expenditures on goods and services provided as social transfers in kind”.

Why are these values imputed ? according to the definition given in section C, imputed expenditures cover only barter, income in kind and own account production. Expenditures relating to social transfers in kind are likely to be not imputed. Or does it refer only to the part consisting in individual non market services ?

9.88 “Most production by units of general government is non-market in nature”

This production is not non-market in nature in the SNA, by difference with other former systems. It is non-market by the conditions of their production.

Change for: “Most production by units of general government is non-market”, simply.

9.98 is derived from SNA93 9.84

Why not reproduce the whole SNA93 § ? The reference to research and development is cancelled; however government is involved in R-D on a non-market basis, that’s a fact

The end of SNA93 § 9.84 reads as follows:

“As the individual usage of collective services cannot be recorded, individuals cannot be charged according to their usage or the benefits they derive. There is market failure and collective services that must be financed out of taxation or other government revenues.”

- why excluding the reference to a pricing based on the benefits that are derived ? it is a form of pricing
- why not providing the explanation (market failure) and the financing by taxation ? it helps to understand

9.102-103 are derived from SNA93 §§ 9.88-9.89. However, most of the rationale is lost.

SNA93 paragraphs explains that enterprises benefit both from individual services (9.88), and from collective services (9.89). The rationales for nevertheless including both categories into collective expenditure are therefore different. All that is lost: the term “individual” does not appear in SNA08 9.102, and SNA08 9.103 is reduced. Once again, too, R-D is discriminated !

The SNA93 references are the following:

9.88 Many government expenditures benefit enterprises as much as households; expenditures on the cleaning, maintenance and repair of public roads, bridges, tunnels, etc. including the provision of street lighting are examples. <u>These are individual services</u> whose consumption

> can be monitored and for this reason they are frequently provided on a market basis by charging tolls on road usage. However, it would be difficult to separate the services provided free to households from those provided free to enterprises and, by convention, all these expenditures are treated as collective final expenditure.
>
> 9.89 Enterprises also benefit from a number of genuinely collective services such as the research and development undertaken by non-market producers, the provision of security by the police, fire services, etc. The usage of such collective services by individual enterprises cannot be recorded, so that expenditures on such services have to be treated as government final expenditure.

9.105 is derived from SNA93 §§ 9.92, and also suffers cuts !, that reduce its interest.

Why to cancel the idea of a possible of pricing according to benefits ? Why to cancel reference to market failure ? Why to cancel the use of taxation as a financing mode ? It’s interesting to help readers to understand the choices made in national accounting.

SNA93 § 9.92 a:

> Collective services can be identified with "public goods" as defined in public finance and economic theory. While it may be technically possible to charge individual consumers of certain collective services according to their usage or benefits they derive, the transactions costs of so doing would be prohibitively high, leading to market failure. This provides an economic, rather than political, rationale for government involvement as the provision of such services has to be financed collectively out of taxation or other government revenues;

9.114 – 9.119

Given the respective magnitudes of the aggregates, it is better to follow the order (also inside 9.117):

households

then general government

then NPISH