

Statistical Commission
Thirty-sixth session
1-4 March 2005
Item 4 (b) of the provisional agenda
Economic statistics: national accounts

Background document
Available in English only

Update of the 1993 SNA: Progress Report

Prepared by the Project Manager
to the
Intersecretariat Working Group on National Accounts (ISWGNA)

UPDATE OF THE 1993 SNA

Progress Report
by the Project Manager
to the Inter-Secretariat Working Group on National Accounts

February 28, 2005 ¹

Background

1. In 2003, the UN Statistical Commission called for an update of the *System of National Accounts, 1993 (SNA 1993)* to bring the accounts into line with the new economic environment, advances in methodological research, and needs of users. The Commission mandated that the update would not recommend fundamental or comprehensive changes to the 1993 SNA that would impede its implementation, and it identified consistency with related manuals such as the *Balance of Payments Manual*, fifth edition, as an important consideration.
2. The Inter-secretariat Working Group on National Accounts (ISWGNA)—comprising Eurostat, International Monetary Fund, Organisation for Economic Co-operation and Development, the United Nations, and the World Bank—was mandated to coordinate and manage the Update Project. The timetable, as agreed to by the Statistical Commission in 2004, calls for *1993 SNA, Rev. 1* to be ready for its endorsement in March 2008.
3. The Statistical Commission emphasized the need for transparency in the Update Project and the broadest possible involvement of the global statistical community. In line with this emphasis, the Advisory Expert Group (AEG), comprising 20 country experts from all regions of the world, was positioned to take a key role in the update. The Group considers the proposals for change and expresses its views, both in meetings and in written consultations. The single most important tool to promote transparency and wide involvement is the Project website, “Toward 1993 SNA, Rev. 1,” which is maintained by the United Nations at <http://unstats.un.org/unsd/nationalaccount/snarev1.asp>. This website provides comprehensive and timely information related to the Update, including the five-year Work Programme, the list of update issues, related papers, commenting mechanism, meetings and

¹ Paragraphs 7 (December 2004 AEG meeting) and 19 (Project staff) describe developments since the ISWGNA’s report to the Statistical Commission was finalized. The topics in paragraphs 11-18 (work program for 2005-2006) and 20-22 (Project budget) were not covered in the report to the Commission. Compared with the Project Manager’s January 28, 2005, Progress Report, the following paragraphs are new or revised: 6 (r, comment period), 8 (r, comment period), 11-18 (work program for 2005-2006), and 20 (r, reference date).

recommendations of the AEG, links to related sites, and agreed recommendations as they become available. Further, in 2004, the Statistical Commission suggested strengthening the consultation through additional regional workshops.

Progress on issues

4. At its first meeting in February 2004, the AEG reached agreement on an initial list of candidate issues to be considered for the update, focusing on those related to nonfinancial assets, public sector, financial sector accounts, and the balance of payments. After some consolidation by the ISWGNA, this list contained forty-four issues. The list is posted on the Project website.

5. During the same meeting, recommendations were formulated on a number of issues:

- a) *Taxes on holding gains*—approved the recommendation that there should be no change to the SNA;
- b) *Military weapon systems as fixed assets*—accepted all the recommendations from the issues paper, the principal one being to recognize expenditure on military weapons systems as fixed capital formation;
- c) *Employer retirement pension schemes*—further work needed;
- d) *Employee stock options (ESOs)*—approved the four recommendations made in the issue paper, the principal one being to recognize ESOs as compensation of employees;
- e) *Costs of ownership transfer (COT) on nonfinancial assets*—approved the two recommendations made, namely (i) to continue to record COT as fixed capital formation, and (ii) that they should be written off over the expected period of ownership (rather than over the life of the asset);
- f) *Measurement of the production of non-life insurance*—accepted the major proposal to replace the current formula used to estimate the production of insurance services with one using adjusted claims and, optionally, adjusted premium supplements;
- g) *Measurement of the production of (noninsurance) financial services* (provisional recommendations)—further work needed; and
- h) *Measurement of the output of central banks*—further work needed.

6. These recommendations were circulated to statistical offices and central banks of United Nations member countries following the meeting. In response, comments were received from 42 countries during the comment period, about equally from statistical offices and central banks. Those views are now being taken into account.

7. The AEG met, as scheduled, for the second time in late 2004 to consider a broad range of issues, including those related to government/public sector and balance of payments. On the items that were considered for decision, the recommendations were as follows:

- a) *Databases*—tentatively accepted the proposal that all databases were candidates for treatment as fixed capital pending further specifications of some aspects.
- b) *Mineral exploration*—accepted proposals to change the name of the item to include “evaluation,” to clarify the description of its valuation, to maintain the distinction between this item as a produced asset and the mineral deposits as nonproduced assets, and on a default valuation when market price is not available. Further work is needed on aspects that relate to government ownership and to leases and licenses.
- c) *Originals and copies*—agreed that copies acquired by producing units with licenses to use should continue to be recorded as gross fixed capital formation when they display characteristics of fixed assets. It was also agreed that the acquisition of licenses to reproduce should be recorded as intermediate consumption if the license displays the characteristics of an operating lease, but if the holder of an original divests itself of part, or all, of the responsibility to issue licenses then this constitutes a sale of part, or all, of the original.
- d) *Non-performing loans*—accepted the proposal to continue to record loans at nominal value for both creditors and debtors and show the market value in memorandum items (preferably mandatory for financial institutions and government as creditors). Clarification is required on a number of aspects; a paper was requested.
- e) *Government-owned assets: cost of capital services*—strongly supported the principle of including a return to capital in the measurement of nonmarket output, but expressed concern about implementation. A world-wide consultation on the range of assets on which to calculate a return is to be conducted.
- f) *Treatment of land improvements*—accepted all of the paper’s proposals, which, in summary, are that land improvements should be treated as fixed assets in the same way as buildings and structures. It was also agreed that the boundary between land improvements and structures should be reexamined.
- g) *Costs of ownership—Part II*—accepted proposals to write off costs of ownership transfer on disposal of an asset over the period the asset is held, to include installation and de-installation costs in costs of ownership transfer if separately invoiced and in the purchaser’s price of the asset otherwise, to record terminal costs as capital formation when they occur and write them off as consumption of fixed capital over the life of the asset or, if this cannot be implemented, when they occur.
- h) *Change of economic ownership*—accepted the proposal to change the terminology by inserting “economic,” but requested detailed clarification, including on shared ownership of assets and the time of the change in economic ownership.
- i) *Application of accrual principles to debt arrears*—agreed that arrears should be harmonized in macroeconomic statistics, that no transactions should be imputed when a liability goes into arrears, that a change in the characteristics of a financial

instrument called for in the original contract should be recorded as a reclassification in the other change in volume of assets accounts, and that contract renegotiations should be recorded as new transactions. Consideration of these issues is to be included in the paper (see item d) on nonperforming loans.

- j) *Residence of households*—agreed on the need for harmonization on the definition for the SNA and balance of payments and at least documentation for other sets of statistics; on use of “predominant centre of economic interest;” and use of the one-year criteria, with existing exceptions of students and patients and clarification of ships’ crews.
- k) *Treatment of multi-territory enterprises*—accepted the proposal to extend the treatment of multi-territory enterprises in the *Balance of Payments Manual*, fifth edition, to all kinds of activities, when separation is not possible and to split units operating in a zone of joint sovereignty or jurisdiction. Further work is needed to specify the ways of splitting units and, more broadly, to address the broader question of multinational enterprises.
- l) *Holding companies, special purpose entities, and trusts*—accepted proposals to treat a special purpose enterprise incorporated in an economic territory other than any of its owners as a separate institutional units and resident in its country of incorporation and request indicative guidelines on the identification of these entities across manuals. The issue should be coordinated with the TFHPSA.
- m) *Recognition of branches*—accepted proposals that physical presence is not required for a branch to be recognized, to replace paying income tax with being subject to income tax laws as an indicator of the existence of a branch, and to recommend considering all criteria for recognition but not requiring that all be met.
- n) *Goods sent abroad for processing*—presented differing views, on both conceptual and practical grounds, about the appropriateness both of the gross treatment as goods and the net treatment as services. A written consultation will be conducted of both AEG and Balance of Payments Statistics Committee members.
- o) *Treatment of activation of guarantees*—deferred recommendation because the issue is being considered by various subgroups.
- p) *Nonlife insurance*—recommended, in line with the majority in the AEG consultation, to exclude own funds in the calculation of output of nonlife insurance; to treat commissions and rebates as negative premiums and to treat profit sharing and bonuses as other income transfers, and to treat payments resulting from exceptional claims as capital transfers.

8. The United Nations Statistics Division, as Secretariat to the ISWGNA, wrote to national statistical offices soliciting comments on these recommendations. The IMF similarly wrote to central banks. The comment period closes April 8, 2005. The comments received

will be summarized, consolidated, and considered for any needed further action. The recommendations were also posted on the interactive Project Website, inviting country and expert comments.

9. The AEG at its December 2004 meeting also considered information items, including an initial list of clarifications to be incorporated in *1993 SNA, Rev. 1*. Additional suggestions for clarification may be submitted until end 2005. Some of these information items, such as on employer pension schemes and the informal sector, portend important work ahead.

10. At this meeting, the ISWGNA concluded that although reasonable progress is being made on the substantive issues, a meeting in 2005 in addition to the one already planned would be needed to maintain the agreed timetable. The agendas for these meetings will be heavy in order to conclude the work of considering individual recommendations for change.

A Closer Look at the Program for 2005 and into 2006

11. The timetable agreed in 2003, as referred to in paragraph 2, calls for the consideration of individual issues to be completed in time for a new phase—the consideration of the mutual consistency of the recommendations and the overall integrity of the system—to begin in early 2006. Attached is a Calendar of Events Related to the Update of the 1993 SNA, 2005 - mid 2006. The calendar shows key markers in the issues-preparation pipeline: the AEG meetings and the events—meetings of groups, consultations, etc.—that feed recommendations to the AEG-ISWGNA for decision. The broad scope of these events reflects in part the mandate to ensure harmonization of the update of the SNA with the ongoing updating and revisions such as on the *Balance of Payments Manual*, fifth edition, on the *Government Finance Statistics Manual*, and on classifications.

12. Column 1 shows the AEG meetings. The two in 2005 are to reach recommendations on individual issues. Columns 2-4 show the meetings of the three groups that are responsible for bundles of issues. The Canberra II Group, which is taking the lead on nonfinancial assets, focuses specifically on readying issues for the Update. The Task Force on Harmonization of Public Sector Accounts (TFHPSA) has two main tasks, one of which is readying issues for the Update (the other is harmonization of national accounting and public sector accounting). The IMF Balance of Payments Committee's (BOPCOM's) central mandate is on the revision of the *Balance of Payments Manual*, but the work is being carried out with a commitment to harmonization with the SNA. On more specific topics, a number of other groups—standing task forces, special-purpose expert groups, and electronic discussion groups (EDGs)—bring together expertise and then feed recommendations to the AEG-ISWGNA. These topics include remittances, classifications, valuation and measurement of equity, international trade in services, and financial services. The events of these groups are shown in column 5. As would be expected from the agreed timetable, the issues-related events in columns 2-5 are numerous in 2005 and thin out in 2006 as the Project moves to the next phase.

13. Events providing opportunities for consultation and feedback are shown in column 6. As the Project moves beyond consideration of individual issues and as the body of *Rev. 1*

begins to take shape, it would be expected that consultations and feedback will be even more extensive and will merit some subdivision in a Calendar, such as by region.

14. As shown in the Calendar, the next meeting of the AEG, planned for July in Bangkok (hosted by ESCAP), is expected have papers before it and seek to reach recommendations on a range of issues and sub-issues. Several of the issues have consequences across a number of SNA accounts: public/private/government sectors delineation, non-performing loans, valuation of loans and deposits, and government-owned assets. The other issues include migrants' transfers, goods for processing, and merchanting, in the balance of payments area; index-linked debt instruments, interest and related issues, financial assets classifications (debt securities, financial gold), and financial services; super-dividends and capital injections, tax revenues, uncollectible taxes and tax credits, and activation of guarantees and constructive obligations, in the government area; and, with respect to nonfinancial assets, right to use/exploit non-produced resources by non-residents, research and development, patented entities, goodwill and other non-produced assets, obsolescence and depreciation, and water as an asset. In the preparation for this meeting, the experience of earlier AEGs is being brought to bear to help ensure the availability of timely papers that facilitate decisions on recommendations.

15. Several of the issues that will come to the 2005 AEG meetings will merit the Project Manager's especially close attention. The reasons for the close attention are usually some combination of importance in providing a useful analytic picture of the economy and likely difficulties in reaching a consensus on the appropriate treatment. For example, the informal sector issue merits attention because the history of the issue suggests that it will not be easy to reach agreement, yet there is a strong call, especially from developing countries given the important role the sector plays in their economies, for expanded attention in the SNA. After long discussion and considerable effort, the *1993 SNA*, in the end, has little about the informal sector. Since its publication, there has been a steady demand for improved guidelines on the informal sector, but progress has been uneven. Although a consensus on a definition seems to be emerging, it is not yet fully worked out. A substantial amount of work has been done on practical measurement, including in the context of improving the "exhaustiveness" of GDP, but the results of that work may be better placed in compilation guides than in the *1993 SNA, Rev. 1*.

16. The treatment of pension schemes, to take another example, was also contentious in the run-up to the *1993 SNA*. With the aging of populations, the treatment of pensions in the national accounts has taken on enormous importance. Some participants in the update process consider this issue one of the most highly charged, but important issues, being considered. The *1993 SNA* recognizes promises to pay future pension benefits as liabilities of funded employer pension schemes, but not of social security schemes and unfunded employer schemes. This convention and some others may seriously distort the view of economic transactions and financial positions of employers and government, on the one hand, and households, on the other. Further, the SNA's guidance differs from that provided in the *Government Finance Statistics Manual*. Reaching agreement is made quite complex by

the wide array of institutional arrangements in various countries. An EDG began exploration as early as 2001, but discussions at two AEG meetings still leave work to be done.

17. Even assuming that recommendations are reached in July 2005 on all the issues projected for that meeting, the next—and final meeting—on individual issues will also have a heavy agenda. This meeting is nominally shown in the Calendar for December 2005, but early 2006 is perhaps more realistic to allow adequate time after the September meetings of Canberra II and the TFHPSA to prepare papers for the AEG's consideration.

18. Without doubt, the rest of 2005 and into 2006 will test our discipline. As reported to the ISWGNA: Management Group after the December 2004 AEG meeting, the process is behind the optimal schedule. However, focused hard work, first by those in the various task forces and expert groups in preparing issues for discussion and then by AEG members in preparing to reach decisions, can lead to recommendations on most, if not all, of the identified issues within a timetable that meets the 2008 target date for Statistical Commission endorsement. Of course, the members of ISWGNA: National Accountants have an important role to play in facilitating work across the continuum of the Project's activities.

Organization and Resources

19. In December 2004, the ISWGNA agreed on an updated set of governance arrangements for the Project. (See the annex to the Progress Report to the AEG, in the paper for the December 8–16 AEG meeting, at the Project Website.) At the same time, the ISWGNA announced the appointment of the Project Manager and Editor—Ms. Carol Carson and Ms. Anne Harrison, respectively. Both bring to the Project substantial experience in national accounting and in international collaboration in the development of statistical guidelines; for example, both participated in the work toward *1993 SNA*.

20. The resources for the Project continue to come from several sources. First, each of the five ISWGNA organizations, according to their interests and abilities, contribute staff resources and other support. Second, countries' national statistical offices and other statistical units contribute their staff expertise by participating in task forces and providing comments. Third, some joint activities are financed by contributions to a Trust Fund established to support the Update Project. This Trust Fund is administered by the World Bank (one of that organization's contributions). To date the contributions are from national statistical offices and international organizations. As of end February 2005, contributions in hand and contributions being negotiated amount to US\$1.2 million.

21. The budget for Trust Fund activities, originally set out in the Work Programme prepared in 2003, has been reestimated to take into account developments since that time.²

² Compared with the budget originally shown in Work Programme prepared in 2003, the major changes are as follows: (1) expenditures in 2004 are lower because the Project Manager and Editor did not take their positions as early as had been assumed and expenditures beginning in 2005 are higher because the rate of remuneration for these

(continued)

As shown as table 1, over the years through 2008, a total of about US\$1.8 million is needed to bring to completion the activities included in the original Work Programme (line 6). In addition, the Statistical Commission, in 2004, suggested strengthening the consultation process through regional workshops. Some regional organizations or organizations that have a developing-country orientation may be able to fund travel expenses of participants, and it is possible that one or more of the ISWGNA organizations may be able to incorporate workshops as part of their technical assistance and training programs. At this time, it is not possible to count on these sources to cover fully the consultations with developing countries. Accordingly, a new line item (line 7) has been added for such consultations, first at a technical level in 2005–06, mainly on the recommendations for change and clarification, and then at the managerial level in 2006–07 as attention turns to implementation and approval of the *SNA 1993, Rev. 1*. Of course, possibilities of back-to-back events and other synergies would be sought to make most efficient use of the resources made available to the Trust Fund. The total with consultations in developing countries is US\$2.1 million (line 8).

22. Thus, there is a financing gap between the contributions in hand or almost in hand and the expenditure for a robust but certainly not extravagant set of joint activities. This financing gap is about US\$600,000 to bring to completion the activities included the original Work Programme and about US\$900,000, including the consultations in developing countries. Expenditures through 2005 can be covered with the contributions in hand, providing a window during which the budget can be balanced.



Carol S. Carson

Project Manager for the Update of the 1993 SNA

ccarson@imf.org

positions is higher than had been assumed; (2) expenditures in 2005 are higher because an additional AEG meeting is included; (3) expenditures in 2008 have been identified to bring the Project to completion, and (4) an item for contingencies has been added in light of the substantial uncertainties in several line items. As well, a line has been added for additional consultative meetings, largely targeted for developing countries, in response to the Statistical Commission's request in 2004.

Table 1. Budget for Activities to be Financed by Joint Funds
(as of January 2005, calendar years, in U.S. Dollars)

Budget items	2004	2005	2006	2007	2008	Total
Reference: highlights of work program	Consultation and agree on recommendations	Consultation and agree on recommendations	Consistency check, review	SC considers recommendations in March; drafting	SC considers final draft of <i>Rev. 1</i> in March; publish	
1. AEG meetings (expenses of developing country members)	Feb ^{1/} Dec 75,000	Mid 60,000 Late 60,000	May 62,500	...: 65,000		322,500
2. Remuneration of Project staff	7,500	309,081	338,668	347,348	50,000	1,052,597
3. Travel for Project staff	11,000	65,000	45,000	47,000	10,000	178,000
4. Consultancies - web and electronic format with search, index, etc. - other		20,000	20,000	50,000 20,000	50,000	
Total		20,000	20,000	70,000	50,000	160,000
5. Contingencies					100,000 ^{2/}	100,000
6. Total	93,500	514,081	466,168	529,348	210,000	1,813,097
7. Consultations in developing countries ^{3/} - national accountants - managers		100,000	50,000 50,000	100,000		
Total		100,000	100,000	100,000		300,000
8. Total with consultations in developing countries	93,500	614,081	566,168	629,348	210,000	2,113,097

¹ The expenses of developing countries participants, totaling \$50,000, were covered by the IMF.

² Including for Project staff remuneration and travel if there is more than nominal work in response to Statistical Commission and other last-minute changes.

³ Assumes that the ECE-OECD-Eurotat meetings will adequately provide consultations in Europe, North America, Russia, New Zealand, and Australia.

