

Balance of Payments Issues for the SNA Review

Topic (Main 1993 SNA reference*)	Issue	Background
Overview (1993 SNA Ch II) 1. Meaning of “national economy”	Clarify inclusion of offshore financial centers; in addition to national economy, discuss preparation of data for economic and monetary unions; definitional issues associated with cross-national entities in economic and monetary unions.	Special zones should be included in national data, although the option of showing them separately will be raised; there is increasing interest in preparing data for groups of national economies.
Flows, stocks, and accounting rules (1993 SNA Ch III) 2. Application of the concept of “transaction”	(a) Adopt term “change of economic ownership” instead of “change of ownership.” (b) Reconsideration of whether the assets, liabilities, and personal effects of individuals changing residence (“migrants’ transfers”) are shown as a capital transfer (as present) or other change. (c) Clarify application of accrual principles to debt in arrears.	(a) Proposed term would better cover cases that are currently exceptions, such as finance leasing and repos. (b) Does not appear to fit definition of a transaction. (c) Not mentioned in 1993 SNA. Could be interpreted as imputed repayment on due date or actual date of payment. The imputation of transactions could be misleading in this situation.
Institutional units, sectors, residence (1993 SNA Ch IV) 3. Residence	(a) Amend principle for residence from “center of economic interest” to “predominant center of economic interest.” (b) Clarification of mobile individuals (temporary workers, international students, etc.)	(a) Proposed term would recognize that entities increasingly have more than one focus of economic interest. (b) Increasing importance with globalization and inconsistent treatments causing global asymmetries. Take account of conclusions of demographic,

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4. Institutional units	<p>(a) Multiterritory enterprises (e.g., SAS Airlines)—Clarification of residence and circumstances when and how enterprise will be split.</p> <p>(b) Clarification of status unincorporated branches as units, sector, and residence of holding companies, special purpose entities, and trusts.</p> <p>(c) Clarification of rules for when branch is identified as separate institutional unit, including construction, ownership of land and long-term leases.</p>	<p>migration, and tourism statistics.</p> <p>(a) Difficulties in treating multiterritory enterprises consistently, so guidelines needed.</p> <p>(b) These entities often undertake no production, but hold significant assets, and liabilities, as well as undertaking financial transactions.</p> <p>(c) Inconsistent treatments currently cause global asymmetries.</p>
<p>Goods and services (1993 SNA Ch VI)</p> <p>5. Goods sent abroad for processing</p> <p>6. Merchanting</p>	<p>Current treatment to be reviewed.</p> <p>State treatment of goods that do not enter the territory of the trader.</p>	<p>Current treatment complex, results in large gross flows, the flows do not distinguish between return of processed goods and import of goods for processing.</p> <p>Not covered in 1993 SNA. Need to state whether margin or goods flow, and recording of inventories.</p>
<p>Primary distribution of income (1993 SNA Ch VII)</p> <p>7. Retained earnings</p> <p>8. Interest and related issues</p>	<p>Consider whether retained earnings should be imputed as being income payable and reinvested for:</p> <p>(a) Mutual funds.</p> <p>(b) Direct investment enterprises.</p> <p>(a) Possible use of current yield basis as main or supplementary basis for interest on debt securities.</p> <p>(b) Treatment of debt instruments indexed</p>	<p>(a) 1993 SNA and BPM5 inconsistent between mutual funds and other schemes; ESA 95 inconsistent with other manuals.</p> <p>(b) While direct investment reinvested earnings transactions may be important for analysis, they require imputation and are also incompatible with the treatment of equivalent resident-to-resident relationships.</p> <p>(a) Following up on UNSD advice that this issue may be taken up by AEG, and advances in IAS.</p> <p>(b) Alternative view that debt indexed</p>

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	<p>to foreign currency, where the indexation adjustments are currently treated as interest.</p> <p>(c) Treatment of interest at concessional rates.</p> <p>(d) Treatment of fees payable to an owner on security lending and gold loans.</p>	<p>to a particular currency are effectively denominated in that currency.</p> <p>(c) Below-market interest rates arguably include a transfer or discount element.</p> <p>(d) This type of revenue is not interest or dividends, and is not currently mentioned; alternative treatments to be considered.</p>
<p>Capital account (1993 SNA Ch X)</p> <p>9. Activation of guarantees and calling on of collateral (Also 1993 SNA Ch XI)</p>	<p>Spell out classification of flows associated with calling of guarantees.</p>	<p>No treatment given in 1993 SNA. Issues as to whether activation is transfer or acquisition of equity; if transfer, whether flow is between guarantor and creditor, or between guarantor and debtor.</p>
<p>Financial assets and liabilities— transactions and positions (1993 SNA Ch XI, XIII)</p> <p>10. Valuation of loans and deposits</p> <p>11. Financial assets classification</p>	<p>(a) Proposed use of nominal value in positions, with fair value as a memorandum item for creditors.</p> <p>(b) Reconciliation of transactions at market values with positions at nominal values.</p> <p>(c) Need for guidance about when liability is eliminated by write-off and when interest and FISIM cease to be accrued.</p> <p>(a) Grouping into “debt,” “equity,” and “other”;</p> <p>(b) Adopt terms “debt securities” and “equity securities”;</p> <p>(c) Split equity into mutual funds and other, split mutual fund equity into money market funds and other;</p> <p>(d) Split financial derivatives into</p>	<p>(a) Valuation at nominal value does not reflect financial position of creditor. To incorporate results of EDG.</p> <p>(b) Inconsistent valuations currently used.</p> <p>(c) Need for guidance.</p> <p>(a) Debt/equity split is of interest;</p> <p>(b) BPM5 terminology clearer than 1993 SNA terminology;</p> <p>(c) Mutual funds of analytical interest and shown separately in ESA95; money market funds treated separately in monetary statistics.</p> <p>(d) Interest in separate data;</p>

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	<p>forwards and options;</p> <p>(e) Consider classifying financial gold as asset.</p> <p>(f) Additional split to allow both original and residual maturity</p>	<p>(e) Reflects role of gold in financial markets; existing treatment requires gross recording of transactions and interest on gold loans to be treated as a service.</p> <p>(f) 1993 SNA text does not distinguish, while asset classification table uses original basis; analytical interest in both bases.</p>
<p>Other</p> <p>12. Insurance and reinsurance (1993 SNA Annex IV, Ch VI, VII, VIII)</p>	<p>Statement of treatment for mutual insurance and reinsurance.</p>	<p>Currently reinsurance netted, mutual insurance not dealt with.</p>

* These issues also arise in Chapter XIV Rest of the World Account.