

List of Candidate Issues for Review in the 1993 SNA Updating Programme

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PART I: FINANCIAL ISSUES

1. Repurchase agreement

A repurchase agreement (repo) involves the sale of securities or other assets with a commitment to repurchase equivalent assets at a specified price. The right to on-selling has become almost universal. The 1993 SNA and the BPM5 treat the repos similar to that of a collateralized loan or as other deposits if repos involve liabilities classified under national measures of broad money. Should the 1993 SNA treatment be revised?

2. Pension schemes in macroeconomic statistics

In the 1993 SNA, promises to pay future pension benefits are not recognized as liabilities of social security schemes and unfunded employer schemes. The review will investigate the analytical relevance of recording these liabilities in the national accounts and, if appropriate, formulate recommendations regarding their valuation and measurement. The review will also formulate proposals to reconcile the recommendations of the 1993 SNA and the IMF Government Finance Manual regarding the treatment of unfunded employer pension schemes.

3. Employee stock options

Employee stock options are a common tool used by companies to motivate their employees. Given that the 1993 SNA does not provide guideline to this issue, the question raised is whether stock options should be considered as compensation of employees and therefore as a cost to employers. Experts at the OECD meeting on national accounts in October 2002 arrived at the consensus to include employee stock options in compensation of employees. Further harmonization with international business accounting standards is required.

4. Non-performing loans

The treatment of non-performing loans is a topic on which the Thai authorities had asked the ISWGNA for clarification as to what extent unpaid interest should be accrued (considering that the financial intermediation services indirectly measured on such interest may affect the GDP). The purpose of the review is to determine what criteria should be applied to the writing-off of non-performing loans and to make sure that they are consistent with the other major macroeconomic statistical systems (balance of payments, government finance, and money and banking statistics).

5. Insurance and reinsurance

This issue is devoted to the measurement of non-life insurance services, with a special focus on the treatment of catastrophic losses. The output of insurance services as calculated using the 1993 SNA algorithm depends on the balance of premiums to claims (on an accrual basis) and can therefore be extremely volatile (even negative) following major catastrophes. The massive claims generated by the 11 September terrorist attack, is a recent example. It had impacts on GDP and balance of payments (reinsurance). The objective of the review is to propose measures that would

be more consistent with the perception of production in this activity. In particular, medium to long-term aspects of non-life insurance are to be taken into consideration.

6. Measurement of financial intermediation services and portfolio management

This issue is devoted to the measurement of the output of financial intermediation services and portfolio management in the national accounts. The business of financial corporations has undergone a structural transformation towards a rising importance of the portfolio management of financial assets. This generates holding gains and losses, that, typically, national accounts exclude from the production boundary and therefore income. The review will consider whether and how the production boundary can be adapted to this rising activity, and how this could influence income.

7. Capital gain taxes

Taxes on capital gains are treated as taxes on income and deducted from income while the tax base (the realized holding gains) is not included in the SNA definition of income. Is this a contradiction that should suggest alternative treatments or should the SNA treatment remain the same?

8. Treatment of nominal holding gains and interest on financial assets under high inflation.

Peter Hill and Andre Vanoli have written to the ISWGNA, with regard to the treatment of nominal holding gains and interest on financial assets under conditions of high inflation, as described in the 1993 SNA Chapter XIX, Annex B and subsequently in the OECD publication "A Manual on Inflation Accounting" written by Peter Hill along a position different from that taken in Annex B in the 1993 SNA. Andre Vanoli has written a paper for discussion at the 1998 IARIW conference which raised issues regarding the inflation accounting treatment. Peter Hill has responded with a paper also submitted to the 1998 IARIW conference, essentially giving counter-arguments and in turn raising issues regarding Annex B. The EDG on this issue did not arrive at a distinct conclusion. This issue will be put forward to the Advisory Expert Group on National Accounts.

PART II: NON-FINANCIAL ISSUES

9. Research and development (R&D)

The 1993 SNA treats research and development (R&D) expenditures of market producers as production of a notional establishment and intermediate consumption of other establishments of the same enterprise while R&D expenditures by non-market producers are recorded directly into intermediate consumption. Questions have been raised whether R&D costs should be capitalized. If that solution is chosen, should expenditure on basic research be treated similarly as expenditures for applied research and experimental development? Should the R&D activities of non-market producers be treated as for market producers?

10. Patented entities – Research and development expenditure

In the system patented entities are treated as non-produced intangible assets. However, payments received from patent users are by convention recorded as output of services similar to rentals from lease of fixed assets. This is contrary to other non-produced assets such as land. Should R&D costs and the original derived from it be linked or capitalized separately? Furthermore, how should originals be valued and what types of price indexes should be used to deflate the output of services from patented entities?

11. Treatment of originals and copies

How should expenditures on originals and copies be recorded, should both be recorded as expenditure (on new goods) on the basis that originals are distinct from copies, or should originals be considered as being analogous to a ‘stock’ of copies, and so expenditure on a copy partly (or mostly) reflects a sale of an existing good? How should the transactions in copies be recorded?

12. Databases

The 1993 SNA recommends that large databases should be capitalized. Should SNA provide a clear definition of databases to be capitalized covering characteristics such as size and marketability of the data as well as the database itself.

13. Other intangible fixed assets – new information and specialized knowledge

The 1993 SNA mentions these not-elsewhere classified items in the Annex of Chapter XIII, which are restricted to the units that have established ownership rights over them or to other units licensed by the latter. What is intended to be included in other intangible fixed assets?

14. Capital services

Capital services provided by fixed assets to the production process are not explicitly defined by the 1993 SNA. The OECD’s **Measuring Capital** defines capital inputs as the actual or estimated pure economic rent payable; that is, by the sum of depreciation and the capital, or interest, costs. There is a need for a definition of capital services in the SNA. Should it be rental or pure economic rent? Given the latter definition, the capital services of rented produced fixed assets are only part of the rental paid by the user to the owner (the remainder being the costs incurred by the renter in providing the service), and which appear in the SNA as intermediate input; and likewise, the capital services of rented non-produced assets are only a part of the rent paid, and appear in the SNA as part of gross operating surplus. For own-use fixed assets, capital services appear as part of the gross operating surplus. How should capital services be shown in the accounts for productivity analysis purposes? Should the treatment of capital services be introduced into the core of the SNA or be treated in a satellite account?

15. Cost of ownership transfers

The review was initiated by a request from the Singapore Statistical Office and its principal focus has been whether the COT of fixed assets should be expensed or capitalized. The review has since broadened to include issues such as, if COT is to be capitalized what should be the service life, how should we treat COT when the underlying asset is sold by the original owner, and, by extension, how should we treat the termination costs of the underlying asset.

16. Government-owned assets

Services from government-owned assets, which are used in the production of government services are reflected in the output of the government services only as consumption of fixed capital. This means that neither return on capital to these assets nor opportunity cost is recognized. Should the SNA treatment of imputed output to the general government activity remain the same or should capital services be included?

17. Mineral exploration

Expenditures on mineral exploration are classified as gross fixed capital formation. The rationale is that mineral exploration creates a stock of knowledge about the reserves that is used as input in future production activities. The question has been raised as to whether this knowledge should be seen as independent of the stock of economically exploitable reserves or whether this leads to

double accounting when both discovered stocks of resources and stock of exploration are capitalized.

18. Transactions of the right to use/exploit non-produced resources between residents and non-residents and between residents

Except for land, transactions of the right to use or exploit non-produced resources between residents and non-residents have not been fully elaborated by the 1993 SNA. For land a notional resident unit is created which is deemed to purchase the land while the non-resident is deemed to purchase a financial asset (equity) of the notional unit. Should the treatment of land be extended to other non-produced resources such as water, fish, etc. or should there be alternative treatments?

19. Consumer durables

The 1993 SNA treats all consumer durables as household final consumption, except own-occupied housing. Should consumer durables be capitalized in the system or should they be encouraged to be developed in a satellite account?

20. Military weapons

The 1993 SNA divides military assets into those that can be used for civilian purposes and those that can only be used for military purposes. The former are treated as gross capital formation, the latter as intermediate consumption. This treatment does not provide an appropriate accounting system for existing weapons as weapons that have already been expensed can actually be taken out of stock for use or for exports and would have to be balanced by a negative component in government final consumption. Should the line between gross capital formation and intermediate consumption be drawn differently?

21. Treatment of land

The SNA currently records improvements to land as gross fixed capital formation, but in the balance sheet such improvements are included with land itself – a non-produced asset. Should land be split into two, with one part recorded as a fixed asset and the other part recorded as a non-produced asset? If so, how should the separation be made? One option is to distinguish between land that is in, or nearly in, its natural state as a non-produced asset and the remainder as a fixed asset. Another option is to separate land from the improvements made to it, and record the former as a non-produced asset and the latter as a fixed asset.

22. Contracts and leases of assets

Contracts and leases of tangible assets are defined by the SNA. However, the treatment of intangible non-produced assets is not clarified. These assets comprise governmental tradable leases/licences such as casino, taxi permit, foreign trade licenses and emission permits, non-governmental tradable contracts (option to buy not yet produced assets, contracts on authors, football players and other performers, etc.), subcontracting to third party of tradable leases/contracts/licenses, franchises and goodwill. Should and under what conditions should a lease/license/contract on non-produced assets be treated as a sale or rent of the asset? Should the criteria provided by the ISWGNA on mobile phones be applied or should they be further elaborated? Should a legal construct be recognized as a non-produced asset when it is signed? How should one treat a change in the market prices of a lease or contract when its value is different from the discounted sum payable? If it is recognized, should it be treated as a financial derivative or a non-produced asset? Should the concept of financial leases be broadened to include assets that are not leased for their entire service life?

23. Goodwill and other non-produced assets

The 1993 SNA only records purchased goodwill and it treats purchased goodwill for corporations and unincorporated enterprises differently. Should goodwill continue to be recognized only when purchased or should internally generated goodwill be recognized? Should purchased goodwill be treated the same way for corporate and unincorporated enterprises? Should the balance sheet recognize assets such as brand names, trademarks, franchises, etc.?

24. Obsolescence and depreciation

Consumption of fixed capital (i.e. depreciation) is defined in the 1993 SNA in general terms as the decline, during the course of the accounting period, in the current value of the stock of fixed assets owned and used by a producer as a result of physical deterioration, normal obsolescence or normal accidental damage. It is referred to as time series depreciation because it is defined in terms of the change in value of an asset over time. An alternative definition, called cross section depreciation, is defined to be the difference in value of two assets that are identical, except one is older than the other by the same length of time as the accounting period. Cross section depreciation is used in the derivation of estimates of multifactor productivity, and it seems that in practice, most, if not all, countries estimating depreciation are in fact applying this definition. Should time series depreciation continue to be the one defined in the SNA and, if so, how should it be applied?

25. Build-Own-Operate-Transfer (BOOT) schemes

BOOT is a scheme in which a private enterprise builds or purchases a facility that provides services for the general public (such as toll booth, highway, prisons or electric generating facility) at its own expenses in return for the right to operate it and to charge a regulated fee that allows it to earn a net profit for an agreed length of time. At the end of the period, the ownership of the facility is transferred to the government without compensation. Should SNA provide guidance to the treatment of the various BOOT schemes?

26. Ancillary units

Ancillary units engage in “an ancillary activity that is undertaken not for its own sake but purely in order to provide supporting services for the principal or secondary activities with which it is associated.” Typical examples of ancillary units are the headquarter office, warehouses and transport facilities. The output of an ancillary activity is not explicitly recognized in the SNA and all the inputs consumed by an ancillary activity are treated as inputs into the principal or secondary activity, which it supports. Should the SNA treatment of ancillary units remain the same or should it be modified to facilitate the compilation of regional accounts?

27. Cultivated assets - rewording

During the System of Economic and Environmental Accounts discussions, it was agreed that the present definition of cultivated assets in the SNA is ambiguous. Should the SNA’s definition be tightened as follows: “cultivated assets cover livestock for breeding, dairy, draught, etc. and vineyards, orchards and other trees yielding repeat products *whose natural growth and regeneration* is under the direct control, responsibility and management of institutional units”? The words in bold italics replace the words “that are” in the SNA.

28. Classification and terminology on assets

Should the classification of assets be revised in line with the review of other issues such as leases and licenses? Should the tangible/intangible dichotomy be suppressed?

29. Macro-economic aggregates in the system

The SNA encompasses measures of domestic production, income and expenditure and explains how the value of each of these can be brought into equality; one example is the equality of GDP by production, income and final expenditure approaches. For different analytical purposes, though, not all adjustments necessary to bring this equality about may be equally useful. One instance is the inclusion (or exclusion) of the consumption of fixed capital in order to have a measure of income which aligns better with economic concepts. Another is the way in which market price expenditure includes both the value of taxes and the expenditure these taxes finance. Should alternative macro-aggregates within the system such as NDP be required together with an elaboration on the preferred aggregate for different sorts of applications?

30. Consumer subsidies

There are no consumer subsidies in the SNA. SNA identifies subsidies largely on the basis of the goods and services produced. The treatment of subsidies in the current SNA takes two routes: subsidies on products and other subsidies on production, and social benefits in kind. Some subsidies on production, however, impact more on households than on producers. The topic was extensively addressed during the 1993 SNA revision, but no consensus was reached. ESA has “solved” the problem by specifying a list of government payments, which by convention, are assigned to the household sector. Alternative treatments have been suggested where the government buys the subsidised products from enterprises and the products are passed on to households. “Consumer subsidies” would be a sub item of social transfers in kind and included in household actual final consumption. Should the ESA principle be adopted by the SNA or should a more theoretically satisfactory solution be chosen? Should the current SNA treatment be kept and consumer subsidies be recorded in satellite accounts? How should consumer taxes be treated?

31. Amortization of tangible and intangible non-produced assets

The final report of the ISWGNA on mobile phone licenses includes a brief discussion of the issue of the amortization of intangible non-produced assets. Should this issue be further elaborated for various cases of non-produced assets such as contracts, leases, goodwill and others?

32. Assets boundary for non-produced intangible assets

Should instruments involving the securitisation of future receipts of government be regarded as intangible non-produced assets?

33. Definition of economic assets

Should we add a criterion of 'reliability of measurement'? The SNA currently gives two criteria for an asset - an entity functioning as a store of value: over which ownership rights are enforced by institutional units; and from which economic benefits may be derived. Should there be a third criterion “reliability of measurement” to bring the definition more into line with business accounting standards? With this third criterion, some ‘assets’, such as brand names, could be excluded because it is too hard to quantify them.

34. Valuation of water

When water is no longer a free resource, how should the charge for it be treated? Should it be treated in a similar way to land or mineral resources as giving rise to rent? It is complicated by the fact a large part of the charges is distribution costs.

35. Other issues on the 1993 SNA research agenda

There are two other major items on the research agenda of the 1993 SNA. One is the allocation of FISIM to users of financial services. Can we say that this issue has now been completed? The other is the distinction between the formal and informal sectors of the economy. Much of the

work done over the past few years on the hidden economy is relevant to this issue, which has been a particular concern of developing countries and has become so for transition economies. Although the issue may not need further discussion by the AEG, they may want to consider whether a special section, even maybe a special chapter, should be added on the topic.