

**SHORT REPORT**

**Sixth Meeting of the Advisory Expert Group on National Accounts**

**12 – 14 November 2008**

**at the World Bank, Washington DC**

## Short report of the AEG meeting November 13-15 2008, Washington, DC

*Wednesday 13 November*

### **Pensions**

*Definition of sponsor*

1. It was agreed that a conceptual distinction needs to be made between the unit responsible for determining the terms of a defined benefit scheme (the sponsor) and the unit who bears the ultimate responsibility for the pension liabilities. Although the same unit may frequently carry out both functions, in some cases they are the responsibilities of different units. The description of the second unit may be “administrator”. In the report of the EU task force on pensions, the term “sponsor” is used for both units. Para 11.108 and chapter 17 will be reviewed to see if any wording changes are necessary

*Recording of pension scheme reforms*

2. Changes in pension entitlements are recorded as transactions in the following cases:
  - a. If the pension scheme is included in the core accounts, and the employer/sponsor agrees a change in the terms of pension entitlements via negotiation with the affected employees, this change should be recorded as a transaction in the core accounts.
  - b. If the pension scheme is not recorded in the core accounts, and the employer/sponsor agrees a change in the terms of pension entitlements via negotiation with the affected employees, this change should be recorded as a transaction in the supplementary table.
  - c. In the case of social security, if changes in entitlements are agreed in parliament, this is also recorded as if it is negotiated.
3. Changes in pension entitlements that are imposed without negotiation are recorded as other changes in the volume of assets
4. The difference in the type of recording is one of principle but it is recognized that the distinction between what is negotiated and what is imposed without negotiation will be difficult to determine in practice with different situations prevailing in different countries.

### *Experience effects*

5. The AEG felt it had insufficient information on the difference between experience effects and the impact of changing model assumptions on the estimates of changes in pension entitlements to recommend how they should be recorded in the accounts.

### *Criteria for including an employment scheme for government employees in the core accounts*

6. The AEG supported a revised version of paragraph 17.188 (attached) which included more information on the criteria to be used to determine when the balance sheet consequences of pension schemes should be included in the core accounts. The Project Manager will suggest to the ISWGNA:MG that a change be made to volume 1 to incorporate this.

## **Codes**

### *Consumption of fixed capital*

7. Consumption of fixed capital will be coded as P51c. The breakdown to show consumption of fixed capital in respect of gross operating surplus and gross mixed income will be coded as P51c1 and P51c2 respectively. Exports and imports will be coded P6 and P7 respectively as in the 1993 SNA.

### *Codes for the general government sector*

8. The codes in the text of the 1993 SNA will be retained and the extra items and codes in Annex V eliminated. This leaves two alternative classifications. The first is:

S1311 Central government excluding social security funds

S1312 State government excluding social security funds

S1313 Local government excluding social security funds

S1314 Social security funds.

9. The second is:

S1321 Central government including social security funds operated at the central government level

S1322 State government including social security funds operated at the state government level

S1323 Local government including social security funds operated at the local government level.

### *Distributive codes*

10. The codes referring to current transfers (including social transfers in kind) at the highest level will remain the same as in the 1993 SNA.

### *Extension of the coding system to show control and profit status*

11. The detailed coding structure will not show the codes extended for private, public and foreign controlled subsectors of the two corporations sectors and NPISHs, or the NPI component of the corporations sector or government. Instead the text will explain that further categorization can be applied to the codes shown as necessary for this distinction at the level of aggregation desired.

### ***Thursday 13 November***

#### *Table 17.7*

12. Errors in table 17.7 were pointed out.
13. The term in the use of income account for the change in pension entitlement will be changed to *Adjustment for* the change in pension entitlements and text will point out that the item in the financial account, to remain change in pension entitlement, may differ from the adjustment item by the amount of capital transfers relating to pension entitlements.
14. The text will be corrected to show that payment of pensions does not change the net worth of households.

### **Review of volume 2**

#### *Chapter 22*

15. Some further clarification of the identification of the units in the general government sector, emphasizing functions other than production, should be added.
16. As well as the concepts of control and economically significant prices, it should be recalled that there must be sufficient information available to compile a complete set of accounts for the creation of a public quasi-corporation.
17. Some refinement to the definition of economically significant prices was suggested.

#### *Chapter 25*

18. The AEG supported the content of the chapter and the balance between the treatment of exhaustiveness of the whole economy and the measurement of the “informal sector” within the households sector.
19. The AEG strongly supported retaining the present title of “Informal aspects of the economy”.

## *Chapter 27*

20. Consolidation of flows as well as consolidation of stocks should be covered in the proposed additions to the chapter as well as the balance sheet approach.

### **Emissions permits**

21. The AEG confirmed their earlier view that ETS permits issued under cap-and-trade schemes should be recorded as taxes.
22. The AEG favoured treating payments for permits as pre-paid taxes with the taxes paid as emissions took place but noted this has implications for the measurement of government debt.
23. The AEG discussed but did not reach a recommendation about whether taxes and subsidies should be imputed when permits are issued without charge or at cost lower than the market price.
24. The AEG discussed but was not able to reach a recommendation about how to record changes in the value of payments during their lives.
25. The AEG discussed but was not able to reach recommendations for the treatment of other forms of emissions permits at this stage.
26. The AEG agreed it would be useful to participate in a task force of interested parties (including those responsible for Government Revenue Statistics, BPM6, environmental accounting, a Eurostat task force on the subject) to discuss the question of permits further.

### **The 2008 SNA and the financial crisis**

27. The AEG reviewed a short paper of this title and concluded that the text of the 2008 SNA now gives comprehensive guidance on how recent events connected with the financial crisis should be recorded.
28. It was agreed that the treatment of standardized guarantees issued by government should be extended to other financial instruments.
29. In describing the action of nationalizing a bank, mention should be made of whether government takes effective control of the bank.
30. It was suggested that some extracts from BPM6 on short-selling and securitization should be included in the 2008 SNA.

*Friday 14 November*

**Insurance**

*Non-life insurance*

31. It was agreed that more text on the identification of a catastrophe and the estimates of the size of claims to be treated as capital transfers should be included in para 17. 41 to replace the last sentence there. A revised draft, based on a paper presented to the meeting by Brent Moulton would form the basis of this. The Editor will circulate a suggested revision to the AEG for reaction by the end of November.
32. The AEG did not see any need to pursue any further the question of how the insurance company recouped its exceptional insurance claims.

*Life insurance*

33. The AEG did not regard reviewing the role of holding gains and losses in the determination of the measurement of output of life insurance corporations as a high priority.

*Financial insurance*

34. The AEG took note of the possible use of agreements that superficially resembled insurance policies but in effect serve as a means of reallocating profits between years and agreed that further information on the practice would be helpful in order to give suitable advice to compilers on how to treat such schemes.

### Proposed revision of paragraph 17.188

Existing text	Proposed text
<p>In recognition of this dilemma, some flexibility regarding the recording of pension entitlements of unfunded pension schemes sponsored by government for all employees (whether private sector employees or government’s own employees) is provided. Given the different institutional arrangements in countries, only some of these pension entitlements may be recorded within the main sequence of accounts (here referred to as the “core accounts”). In addition, however, a further table is to be presented that provides information disclosing the proportion of pension provision covered in the core accounts with some approximate estimates for the remaining schemes. It is a requirement, though, that a set of criteria be provided to explain the distinction between those schemes carried forward to the core accounts</p>	<p><i>Same</i></p>
<p>possibly where the pension promise is of sufficient strength</p>	<p>The sort of criteria that might be considered are the following:  The closer a government employer pension scheme is to the prevailing social security scheme, the less likely it is to appear in the core account;  the less the benefits are tailored to the specific characteristics of the individual and the more they are applicable to the population at large, the less likely it is to appear in the core account;  the greater the ability of government to alter the benefit formula, the less likely it is to appear in the core account.  However, none of these criteria alone is necessarily decisive in determining whether the scheme is treated in the core accounts or not</p>
<p>and those recorded only in the supplementary table.</p>	<p><i>Follows first block</i></p>
<p>By making this supplementary table and annotation a standard requirement for international reporting, analysts have the possibility of ensuring that cross country comparisons are not unduly clouded by the institutional variations from country to country.</p>	<p><i>Same</i></p>
<p>Providing a single set of internationally recognized criteria</p>	<p>Further work on refining the criteria</p>
<p>for the distinction between the pension schemes fully recorded in the core accounts and those where the entitlements are shown only in the supplementary table is to be part of the SNA research agenda.</p>	<p><i>Same</i></p>