

As of 1 December 2004

PROVISIONAL LIST OF CLARIFICATIONS IN THE REVISED 1993 SNA, Rev. 1

*Prepared by the ISWGNA for the December 2004
Meeting of the Advisory Expert Group on National Accounts*

The list of clarifications includes suggestions which should be made exclusively for the following purposes:

- using more user friendly terminology in the 1993 SNA;
- amending wording errors and apparent contradictions in different parts of the SNA; and
- rewording text that has been found to be confusing, unclear or ambiguous.

It is important to emphasize that there should be no conceptual issues concealed within the suggestions, given that the ISWGNA has decided that the list of issues for possible substantive change can not be expanded. This decision was made in the light of the need to complete the deliberation of proposals for substantive change by the end of 2005.

The following includes a tentative list of clarifications:

1. Other subsidies on production to non-market producers (SNA News and Notes No. 3, January 1996)

The 1993 SNA defines subsidies as follows: "*Subsidies are current unrequited payments that government units, including non-resident government units, make to enterprises on the basis of the levels of their production activities or the quantities or values of the goods or services which they produce, sell or import. They are receivable by resident producers or importers. In the case of resident producers they may be designed to influence their levels of production, the prices at which their outputs are sold or the remuneration of the institutional units engaged in production*" (para 7.71).

The following paragraph then states: "*Subsidies are not payable to final consumers, and current transfers that governments make directly to households as consumers are treated as social benefits. Subsidies also do not include grants that governments make to enterprises in order to finance their capital formation, or compensate them for damage to their capital assets, such grants being treated as capital transfers*" (para 7.72).

On the basis of the definition quoted above and as the 1993 SNA also "*defines an institutional unit engaged in production as an enterprise. An enterprise may be a corporation..., a non-profit institution, or an unincorporated enterprise*" (para 5.1), some experts have pointed out that it is possible to interpret that non-market production units within the sectors of general government and non-profit institutions serving households may also receive other subsidies on production. This treatment would reduce their output and value added, but leave net operating surplus unchanged.

ISWGNA discussed this issue and agreed to adopt the ESA 1995 view that unrequited transfers to non-market producers could be classified as subsidies provided that those payments depend on general regulations applicable to market and non-market producers as well. A clear example was transfers to increase salaries of teachers in both market and non-market enterprises. It was recognized that this was

not the explicit intent of the authors of the 1993 SNA, but that the SNA wording was consistent with this treatment.

By convention, subsidies on products can only pertain to market output or to output for own final uses. The ESA 1995 also clarifies further that payment by governments to market producers for goods and services should be treated as social benefits in kind and not subsidies on products if those market producers provide those products directly and individually to households in the context of social risks or needs and to which the households are legally entitled to.

2. The treatment of seignorage profits from the issue of coins in the 1993 SNA and in the Manual of Government Finance Statistics (GFS) 1986 (SNA News and Notes No. 4, July 1996)

The 1986 GFS states: "... *Seignorage profits on the issue of coins, however, whether coming from the central bank or from a function of the monetary authorities to be separated from government are included in government revenue along with other central bank profits transferred to government*" (page 62).

The SNA, however, without explicitly addressing the topic of seignorage profits from the issue of coins establishes the principle that both, notes and coins are universally treated as liabilities within the system (para. 11.70). Consequently, there was agreement in the ISWGNA that the full face value received by the government from sales of coins (other than commemorative coins that do not enter the money supply) should be recorded as a financing transaction which increases the government's liabilities under currency and its assets under deposits. The cost to government of producing the coins (or purchasing them from a separate institutional unit) should be recorded as a gross consumption expenditure and not netted in any way against the receipts from issue.

3. Review of SNA terminology for user-friendliness

Institution responsible: European Central Bank

The terminology raised by European Central Bank: The present SNA terminology makes extensive use of the word "other" of rather complex and comprehensive terms. Examples are: changes in classification of assets and liabilities other than monetisation/demonetization of gold; other financial intermediaries except insurance and pension funds; securities other than shares; other accounts receivable/payable. This makes it difficult for economists and analysts to use the exact terminology and encourages/stimulates them to use their own terminology, which in turn may lead to confusion and undermine the use of the statistical concepts.

4. Volumes and prices in relation to taxes on products

Institution responsible: Australian Bureau of Statistics

Clarification raised by Australian Bureau of Statistics: The treatment of the volume and price elements of taxes less subsidies on products needs to be more clearly articulated within the system. Currently, any change in the amount of tax charged per unit of good or service (i.e. the tax rate) is treated as a change in the tax price and the volume of tax is measured as the value of taxes at constant tax rates. There is some confusion as to how these notions translate on the production and expenditure sides of the accounts in a consistent way. It would be helpful if the explanation of this matter was some what more explicit in the revised edition.

5. Clarification of components of compensation of employees

Institution responsible: Australian Bureau of Statistics

Clarification raised by Australian Bureau of Statistics: There have been changes to the way employees are compensated since the release of the 1993 SNA. 'Salary sacrifice' into private pension schemes and other forms of 'salary sacrifice' raise classification issues that are not clearly dealt with in the 1993 SNA. The

criteria for classifying compensation of employees into its various components need to be clarified with regard to the distinction between wages and salaries in cash and in kind and with regard to the valuation of wages in kind. A related issue is the treatment of taxes payable on non-cash components of remuneration, particularly when these taxes are legally levied against the employer and not the employee.

The treatment of 'provisions' for employee entitlements such as recreation leave also needs to be clarified as the statements in the SNA about provisions and the recognition of liabilities has caused some confusion. There is also a need to ensure that there is coherence between the national accounts and other labour data frameworks, particularly in the area of compensation of employees.

6. Review of SNA codes

Institutions responsible: UNSD

The review raised by the OECD: Some of the codes used to identify transactions and balances in the 1993 SNA were unsuitable for electronic data interchange and storage. For example, some codes use an '*'.

7. Should the first appearance of value of financial derivatives be entered as other changes in volume (OCVA)?

Institution responsible: UNSD

Clarification raised by UNSD: SNA paragraph 13.71 deals with the change in value of financial derivatives in the balance but it does not tell how to record the value of a financial derivative when it first appears in the system. The paragraph states that

".....The market value of a forward contract can switch between an asset position and a liability position between accounting dates depending on price movements in the underlying item(s). All price changes, including those that result in such switches, are treated as revaluations."

It is not clear how the initial value of forward type financial derivatives appear in the system. After the contract is signed, should both parties record the (nonzero) new asset/liability appear via the OCVA or the revaluation account? It would be in line with 13.71 if all value changes, also the initial, is treated as revaluation. On the other side, we cannot revalue a nonexistent asset. Do we create an asset/liability with zero value at the beginning of the accounting period?

The treatment could affect contracts (and leases) which are now classified as intangible non-produced assets. As such they appear in the system through the OCVA account. Proposals have been presented to treat leases (which are types of contract) as forward-type financial derivatives.

8. Classification of financial assets: F5 Shares and other equity/F52 Mutual Funds

Institution responsible: ECB, Person in charge: Reimund Mink.

The discussion in an OECD task force devoted to the measure of households' financial assets has shown that there is the need to breakdown the category F5 Shares and other equity into several subcategories, including a category of Mutual Funds or Investment Funds. These subcategories exist in the ESA 95 and appear useful to users. The term "Mutual Fund" should be defined in the next SNA.

9. Valuation of equity

Institution responsible: OECD, Person in charge: Anders Nordin

Paragraph 13.73 of SNA 93 just says that "the value of shares that are not quoted on stock exchanges or otherwise regularly traded should be estimated using the prices of quoted shares that are comparable in earnings and dividend history and prospects, adjusting downward, if necessary, to allow for the inferior marketability or liquidity of unquoted shares", but without making reference to specific issues or methods. The issue is, however, very relevant, as unquoted shares in many countries are far more important than

quoted shares. Nonetheless, little progress was formerly made in producing harmonized data on unquoted shares. There are two issues for clarifications to help harmonizing the valuation of equity:

- (a) The breakdown of AF5 into quoted shares, unquoted shares and other equity as done in the ESA95;
- (b) Recommendation of methods of valuation of different types of equity. This is not a substantive change issue but one that will discuss equity from both the asset and liability side, consider both inter-company and portfolio investment in relation to listed and unlisted equity. Expansion and clarification of equity in the SNA will pave the way for better harmonization with other standards, in particular BPM#5 (which does deal very closely with portfolio and direct investment).

10. Measurement of non market output (paragraphs 16.133 to 16.141)

Institution responsible: OECD, Person in charge: François Lequiller

The recent report of the Atkinson review in the United Kingdom and the Eurostat Handbook on Volume and Prices have confirmed the objective of the SNA to measure the volume output of the general government using direct output indicators. But they propose principles for the measurement that would be useful to include in the new SNA, as they will clarify the conditions of a good measurement of non market output.

11. Concept of jobs and concept of persons (Chapter 17)

Institution responsible: OECD, person in charge: François Lequiller

Chapter 17 of SNA 93 seems to reject the concept of persons from the national accounts. This is in contradiction with the practice of many countries, which publish and transmit data in terms of persons in the framework of national accounts. The objective of this clarification would be to be less restrictive than the current SNA on the concept of persons. ESA's approach, which presents both concepts, would inspire this clarification.

12. Top level industry classifications

Institution responsible: UN-Eurostat-OECD, persons in charge: Eurostat: Paul Konji, -OECD: Bill Cave, UNSD: Ralf Becker

The SNA 93 industry classification is shown as the ISIC 2-digit classification. In addition to this classification, the ESA 95 includes top level industry classifications which regroup ISIC/NACE positions. They are known as the A3 (three positions)/A6/A31/A60 classifications. These top level classifications are heavily used in the transmission of national accounts data for Eurostat and OECD countries. It would, first, be useful that these top level classifications are defined in the new SNA. Second, a revision of these classifications is in progress in Eurostat, alongside the revision of the NACE/ISIC. A paper has also been prepared by the UN. The OECD/Eurostat and the UN will cooperate to propose top-level aggregations acceptable to all.

13. Clarification of Chapter XXI on satellite accounts

Institution responsible: BEA, person in charge: Brent Moulton

There are three proposals to improve the relevance of this chapter, in particular in the discussion of satellite accounting related to a more extensive production frontier for non market production (inclusion of domestic own-account production of services, etc.): (1) Discuss the function of double-entry bookkeeping (accounting independently for value of outputs and value of inputs) in nonmarket accounting context and the implications of adopting this approach for the development of nonmarket satellite accounts; (2) Discuss more explicitly the various possible approaches to valuing the inputs and outputs to nonmarket production and, if possible, endorse some general principles for doing this recommendation. This might also include taking a general position on physical versus monetary accounting (see the current comments on this topic in the context of environmental accounting at

paragraph 21.138); (3) Propose nonmarket accounts for some specific areas in addition to the environment, say perhaps an education account and a health account."

These proposals reflect the findings of a recent study by the U.S. National Academy of Sciences on this topic.

14. The definition of interest

Raised by John Pitzer

The ISWGNA with the approval of the Statistical Commission has decided that the accrual accounting of interest is based on the debtor approach. According to this method, the amount and time path of interest accrual are determined at the time the debt securities are created. The AEG has decided not to reopen the question of the accrual of interest on debt securities. The current definition of interest, however, is not necessarily consistent with that decision. Therefore the definition of interest needs to be clarified. Interest is defined now as the amount that "under the terms of the financial instrument agreed between them...the debtor becomes liable to pay to the creditor over a given period of time without reducing the amount of principal outstanding." [paragraph 7.93] The principal outstanding of a traded security is its current market value. [paragraph 10.14] Thus, interest cannot be determined at the inception of the instrument because it depends on a value of the principal outstanding that can be known only in the future. It would be better to define nominal value as the value of a debt security that would prevail if the current market interest rate were the same as it was at the inception of the security, and then define interest in terms of nominal value. Any definition must, however, take account of the fact that interest accrued on some debt securities, such as index-linked securities, cannot be determined at their inception. In addition to revising the definition of interest, the following applications of that definition need clarifying:

(a) Changes in the Market Value of a Traded Debt Security When the Current Market Interest Rate Differs from the Rate at the Inception of the Security

The market value of traded debt securities is equal to the sum of discounted future payments by the debtor, with the discount rate equal to the current market interest rate applicable to the security. It is well established that a change in the value of a security resulting from a change in the market interest rate is a price change and treated as a revaluation. Once such a change in price and value has occurred and the current market interest rate no longer equals the rate at the inception of the security, and if there are no further changes in interest rates and no changes in the volume resulting from transactions or other economic flows, then the market value of the security will change gradually in the opposite direction until the security reaches its maturity date. Although the original change in the value of a security resulted from a price change, the succeeding changes in value do not result from a price change. This type of change in value is not covered by the current SNA descriptions of transactions, non-transaction changes in the volume of assets, or revaluations. The treatment of this type of value change needs to be decided and the text needs to be revised to state and justify the decision.

(b) The Time Path of Interest Accrual

Even if the total amount of interest to be accrued over the life of a security can be determined at the inception of the security, the time path of interest accrual may not be determinable. A zero-coupon bond with a maturity greater than one year is an example. The most common assumption is that the average annual interest rate over the entire maturity expected at the inception of the security is constant in each accounting period. Markets, however, often provide evidence that the interest rate is expected to change during the life of the security. The text of the SNA could usefully acknowledge that the time path of interest accrual often must be determined by assumption and that a constant interest rate is the best assumption unless there is strong evidence to the contrary. Paragraph 7.103 describes the calculation of interest on deep-discounted bonds. That description does not produce a constant interest rate. It should be

revised to state that the initial discount should be amortized in a manner that produces a constant interest rate.

(c) The Use of “Interest Payments” and “Principal Repayments.”

Interest is a continuous flow. Between payments by a debtor, interest accrues continuously and increases the total liability of the debtor. One can speak of the amount of interest accrued during an accounting period, but not of an interest payment. Any monetary payment by a debtor to a creditor must be a repayment of principal. It may be useful analytically to describe the principal repaid either as part of the original amount borrowed or as the interest that has accrued, but both types of payment are a repayment of principal. The text of the SNA should be revised to clarify this concept. It may be useful then to describe the term “interest payment” as a convenient shorthand reference to a particular type of principal repayment. The term “coupon payment” is undefined but used as one type of “interest payment.” The current text of the SNA suggests that coupon payments should always be treated as payments of accrued interest, which is not necessarily true. Coupon payment should be defined clearly. One possibility is that they refer only to financial instruments for which a series of periodic payments are required of the debtor. If the security was not issued at a premium or a discount, then each coupon payment is equal to the amount of interest accrued since the previous payment.

(d) Valuation of an interest-bearing asset/liability

In various places of the SNA, the terms face value, par value, redemption value, redemption price, and nominal value are used to describe an aspect of an interest-bearing asset/liability. None of these terms are adequately defined, but they all appear to be used as interchangeable references to the value of a security on its maturity date. If they are interchangeable, then one should be selected for consistent use and the others should be noted as equivalent terms sometimes used by economists. If they are not interchangeable, then each term and the differences between them should be defined clearly. In either case, nominal value should not refer to the maturity value. It should be the value of a security when the discount rate is the current market interest rate at the inception of the security. Redemption price should not be used as a reference to a value.

15. The Public Sector

Institution responsible: IMF, persons in charge: Lucie Laliberté

The public sector is mentioned only briefly in Chapter 19. It has become an important analytical construct that complements the currently more prominent general government sector. The Task Force on Harmonization of Public Sector Accounting is clarifying several issues that are unique or particularly important for government, and for the public sector. It is proposed that a chapter (or annex) clarify the identification of institutional units, the meaning of control, the meaning of economically significant prices, the definition of the public sector and its various possible subsectors, accounting rules peculiar to the public sector (e.g., loans at concessional interest rates, transactions between general government and controlled public corporations, public-private partnerships, privatization, and securitization), and propose an alternative set of accounts useful for fiscal analysis (similar to the accounts in *Government Finance Statistics Manual 2001*).

16. Measurement of labor inputs

Institution responsible: The Paris Group Bureau, persons in charge: Denis Ward (OECD) / Adriana Mata-Greenwood (ILO)

Chapter XVII of SNA 93 (Population and labour inputs) includes several references to existing ILO Resolutions. One of these Resolutions, the 1962 Resolution concerning statistics on hours of work, may be revised at the next ICLS (possibly in 2008). The new ILO Resolution on working time measurement could have some impact on the revised SNA. The relevant changes to the Resolution include a revised definition of hours worked and improving the methodologies recommended for measurement, etc., in the light of the increased incidence of alternative working time arrangements. The revised Resolution will

also cover the estimation of annual hours worked and labour input and Paris Group discussions have highlighted a small number of grey areas that could benefit from further clarification in the revised SNA. In this context, the Paris Group will provide further details in a more formal submission to the ISWGNA regarding Chapter XVII, possibly proposing clarifications to the revised SNA needed to accommodate a revised Resolution.

17. Measurement of output produced for own final use

Two issues are raised for clarifications in the measurement of output produced for own final use: Should output be measured at basic prices at farm gates and factory gates to avoid imputing any trade and transport margins? Should own-account capital fixed assets be measured at basic prices and be imputed with mark-up for operating surplus?

(a) Raised by Russel Freeman, IMF

There seems to be confusion in a number of quarters about how such production should be valued. Many people seem to read paragraph 6.85 of *1993 SNA* which says “.... (such) goods and services should be valued at the basic prices at which they could be sold if offered for sale on the market” and interpret this to mean: “*if offered for sale in the local market.*” This is not what it means. The crucial point is that prices “in the local market places”, as measured by CPI collectors are only a particular subset of “market prices” or “prices on the market”. Paragraph 6.37 states: “...outputs are recorded and valued as they emerge from the (production) process.” Considering the particular case of **agriculture production for own final use**, this ‘emerges from the production process’ on the farm, so **should be valued at farm gate prices**. *1993 SNA* does not explicitly use the term “farm gate prices” but this is what it means. If non-monetary agriculture production is valued at prices prevailing “in the local market”, implicit trade and transport margins are attributed to this production, when it is neither sold nor transported, and hence overvaluing it. This should be clarified in contrast to the treatment of marketed agriculture production. For marketed agriculture production, there has been a change in the treatment between the *1968 SNA* and *1993 SNA*. In the former, all farm production was measured at farm gate prices, but in the latter, the point of valuation of marketed produce depends on where it is sold. Paragraph 6.205 says that “...producers' prices (and basic prices) exclude separately invoiced transport charges, but otherwise these are part of production cost”. So if a farmer sells to a wholesaler on his farm, that produce is valued at farm gate prices, but if he, or his family, takes the items to the local market then this produce is valued at prices “in the local market” as the farmer’s transport costs in this case are part of his production costs.

(b) Raised by Cor Gorter, IMF

It would be useful to add a sentence at the end of paragraph 6.85 that if the output is estimated as the sum of the cost of production, a mark-up should be included. Furthermore, the *SNA* (see 10.37, 10.78) says that own-account fixed assets should be valued at basic prices in the capital account. This presumes that there are no taxes on products payable; otherwise they should probably be valued at purchasers’ prices. If, on the other hand, it is decided to value always at basic prices in *1993 SNA Rev. 1*, it would be good to explain this in paragraph 3.73.

(c) Raised by John Pitzer

Paragraphs 6.85 and 6.91 state that these two types of non-market output often must be valued at their cost of production, and they both list the elements of the cost of production as intermediate consumption, compensation of employees, consumption of fixed capital, and other taxes, less subsidies, on production. Non-produced non-financial assets also provide inputs to production, and rent should be added to the lists in both paragraphs. If consumption of fixed capital is replaced by capital services, then it should be made clear that the capital services of non-produced non-financial assets must be included.

18. Inventory withdraws defined including or excluding normal losses*Raised by Paul Cotterel, IMF*

The last sentence of paragraph 6.112 says that goods withdrawn from inventory include recurrent losses due to normal rates of wastage, theft, or accidental damage. However, the paragraph 6.111 just above treats these losses as a separate item from inventory withdrawals.

19. Government final consumption expenditure*Raised by Silvia Matei, IMF*

We often receive questions on how exactly the value of government final consumption expenditure can be derived starting out from government output. It would be useful to spell this out in the revised SNA.

20. Legal versus economic terminology*Raised by Silvia Matei, IMF*

For nonspecialist readers, the current SNA is not always clear in the use of terms. So, for instance, “corporations” may be used in a legal sense in one place, but in the economic sense (including quasi-corporations) elsewhere. The same applies to the term nonprofit institutions. If a legal concept is used, please flag it clearly as such in all cases.

21. Definition of an establishment*Raised by Cor Gorter, IMF*

The definition of establishment in 1993 SNA paragraph 5.21 includes the confusing words: “... in which the principal productive activity accounts for most of the value added.” Some people may read “most” as “more than 50%.” If they don’t, this section is a tautology, because paragraph 5.7 defines a principal activity as the activity whose value added exceeds that of any other activity carried out within the same unit.

22. Valuation of work-in-progress*Raised by Cor Gorter, IMF*

It would be good to bring paragraphs 6.79 and 10.103 last sentence more in line with each other.

23. Capital assets not yet ready for use*Raised by Cor Gorter, IMF*

SNA paragraphs 10.74 and 10.77 include capital assets in gross fixed capital formation even if they are not ready for use. For analytical uses, it would be preferable to classify only in this category if they can be used in the production process.

24. Changes in inventories*Raised by Cor Gorter, IMF*

Paragraph 10.96 and further could explain the treatment of strategic inventories and intervention goods held by government. Presently, only the Annex to the balance sheet mentions inclusion in AN.12.

25. Links between business accounting and national accounting

Extend and update the existing paragraphs in the 1993 SNA to reflect the changes that have occurred in business accounting since the 1993 SNA was prepared.

26. Minor Issues*Raised by Russel Freeman, IMF*

Para 6.205, the reference should be to para 6.219 rather than 6.220.

Para 9.97 should readitem (c) (ii) inPara 11.111, note 2 effective is spelt wrongly.

Para 15.14, homogeneous is spelt wrongly.

Para 15.46, main is spelt wrongly.

Para 14.51.c says: ".....a holding gain/loss is recorded if the new value is less than the old value." It should say:..more/less...

Para 4.49. "functio" should be function.

Para 6.52, heading, own-account should be hyphenated.

Page 266. Problems at the top of column two.

Table 15.1, row 31. It's probably "stocks" rather than "stacks" Same table top of column 24. Adjustment is spelt wrongly.

My special favorite: 6th line para 12, Page 572, there is a remaining copy of the great phrase "not infrequently" with which the 1968 SNA was riddled especially in the phrase "it is not infrequently impracticable" which always had me struggling to know if it was a triple negative or not.

Page 574, para 26, third last line, superfluous "and."

Next page para 35 (a) third line "a" should be "as."

Raised by Cor Gorter, IMF

Paragraph 10.4, second sentence. The statement that financial claims arise out of contractual relationships entered into when one institutional unit provides **funds** to the other is too restrictive.

Paragraph 10.7, indent (b), restricts inventories of acquired products for two uses. However, use as compensation of employees etc. is also possible.

Paragraph 11.58 could specify that the System in principle classifies by original maturity (rather than by remaining maturity).

Paragraph 13.81. The reference to paragraph 11.102 should be to 11.101.

Annex to Chapter XIII. Other structures: dams only if not separable from land, see 10.72.

Page 308, work-in-progress: **Goods** and services...

Paragraph 14.55, fourth sentence says that there is a strong presumption that goods will cross the frontiers either shortly before or soon after the change of ownership takes place. The second sentence of paragraph 14.65, on the other hand, says the time of change of ownership is often not the time at which the good is transported.

Paragraph 14.102 when discussing shipment of equipment to branches overseas includes the words "which are not returned." These words are absent from paragraph 14.59.

The presentation of 15.29 is not very clear, in particular under indent (a).