SNA/M1.06/43

Fourth meeting of the Advisory Expert Group on National Accounts
30 January – 8 February 2006, Frankfurt

FOR INFORMATION

COUNTRY COMMENTS ON RECOMMENDATIONS MADE BY THE JULY 2005 AEG MEETING

United Nations Statistics Division

As on 24 January 2006

COUNTRY COMMENTS ON RECOMMENDATIONS MADE BY THE JULY 2005 AEG MEETING

United Nations Statistics Division[1]

Background

1. The United Nations Statistical Commission at its thirty fifth session emphasized the need for transparency and broadest possible involvement of the global statistical community in the process of updating the 1993 SNA. In line with this emphasis, the recommendations on the following issues made by the Advisory Expert Group (AEG) in its meeting held in July 2005 were referred to the National Statistical Offices (NSOs)/National Banks (NBs) of the member States for their comments, namely:

Issue No.	Issues
1	Reverse transactions
4(a)*	Non-performing loans
9	Research and development
11*	Originals and copies
12*	Databases
15	Cost of capital services
16*	Government and other non-market producers: cost of capital of own assets
20*	Land improvements
22	Purchased goodwill and marketing assets
23	Obsolescence and depreciation
25(c)*	Multi-territory enterprises
31	Water as an asset
35	Tax revenues, uncollectible taxes and tax credits
36	Public/private/government sectors delineation
37	Granting of guarantees
38(b)	Migrants' transfers
39(c)	Residence of households: Non-permanent workers
39(c)	Residence of households: Ships' crew and patients
40	Goods sent abroad for processing
42	Retained earnings on mutual funds and other collective investment schemes
43(a)	Interest on index-linked debt instruments
43(a)	Debt instruments linked to a foreign currency
43(c)	Fees on securities lending and reversible gold transactions
44(c)	Distinction between loans and deposits
44(d)	Traded loans (Borderline between Securities and Other Financial Instruments)

*/ New recommendation on issues included in previous global consultations.
(The item nos. are from the list of issues currently under review for updating 1993 SNA available at http://unstats.un.org/unsd/sna1993/issues.asp)

The AEG recommendations on these issues are placed at Annex-II, for ready reference.

[1] This paper was a collaborative effort by UNSD staff, especially Gulab Singh and Annette Becker.

Response to global consultation on AEG recommendations

2. So far, 58 countries[1] (66 responses) have responded to the global consultation on July 2005 AEG recommendations. This compares to 53 countries (additional four more responses received after July 2005 AEG meeting) and 42 countries commenting on the AEG recommendations made in December 2004 and February 2004, respectively. It is encouraging to note that participation in the global consultation on SNA updating process has progressively increased. The regional distribution of countries responses to the three rounds of global consultation on the AEG recommendations made so far is given in Table1.

Table 1: Regional Distribution of countries commenting on AEG decisions

Region	Sub Region	AEG recommendations made in		
		Feb-04	Dec-04	Jul-05
	Eastern Africa	2	2	3
	Southern Africa	3	2	1
	Western Africa		3	
Africa		**5**	**7**	**4**
	Caribbean		2	1
	Central America	1	3	2
	Northern America	2	1	3
	South America	4	4	3
Americas		**7**	**10**	**9**
	Eastern Asia	3	3	4
	South Central Asia	3	6	4
	South-Eastern Asia	1	6	4
	Western Asia	2	5	6
Asia		**9**	**20**	**18**
	Eastern Europe	5	6	9
	Northern Europe	6	5	7
	Southern Europe	2	4	5
	Western Europe	6	4	5
Europe		**19**	**19**	**26**
	Australia & New Zealand	2	1	1
Oceania		**2**	**1**	**1**
TOTAL		**42**	**57**	**58**

Analysis of country comments

3. The 66 responses on the AEG recommendations made in July 2005 received from the NSOs/NBs of 58 countries have been summarized in Table 2. The responses have been classified into four categories:

A- in agreement with the AEG recommendations,

RI– agreeing in principle with the recommendations but expressing reservation in implementation on practical grounds,

[1] Armenia, Australia, Austria, Belarus, Bermuda, Brazil, Botswana, Bulgaria, Cambodia, Canada, Chile, China, Croatia, Colombia, Cuba, Cyprus, Czech Republic, Estonia, Denmark, Finland, France, Germany, Hong Kong- China, Iran, Israel, Italy, Japan, Kazakhstan, Kenya, South Korea, Kuwait, Lithuania, Latvia, Macedonia, Malawi, Mexico, Moldova, Mozambique, Netherlands, Nicaragua, Norway, Pakistan, Palestine, Poland, Romania, Russia, Serbia & Montenegro, Singapore, Slovakia, Slovenia, Switzerland, Tajikistan, Timor-Leste, Turkey, Ukraine, UK, USA, and Vietnam.

FC–seeking further discussion/clarification,
D- not in agreement with recommendations, and
NC- conveying that they have no comments to offer.

For details of country responses on all issues classified in aforesaid categories please see Annex-I.

4. With a view to determine the extent of the conceptual agreement of countries with the AEG recommendations, a column in Table 2 shows the sum of A+RI (col. 8). In using this sum to judge the extent of conceptual agreement it may be mentioned that feasibility of implementation is one of the criteria of eligibility for deciding the candidate issues for the SNA update.

Table 2: Overview of country comments on July 2005 AEG recommendations

Issue No.	**Issues**	**No. of NSOs and NBs with**					**A+ RI**
		A	**RI**	**D**	**FC**	**NC**	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Reverse transactions	21				16	21
4(a)*	Non-performing loans	25		1		16	25
9	Research and development	20	2	2		15	22
11*	Originals and copies	29	1	1		15	30
12*	Databases	32		1		14	32
15	Cost of capital services	27		1	1	13	27
16*	**Government and other non-market producers: cost of capital of own assets**	**15**	**7**	**10**	**3**	**14**	**22**
20*	Land improvements	27				15	27
22	Purchased goodwill and marketing assets	22			1	14	22
23	Obsolescence and depreciation	25				14	25
25(c)*	Multi-territory enterprises	28				14	28
31	Water as an asset	21	1			15	22
35	Tax revenues, uncollectible taxes and tax credits	19		1		14	19
36	Public/private/government sectors delineation	23				15	23
37	Granting of guarantees	19			1	16	19
38(b)	Migrants' transfers	25		2		14	25
39(c)	Residence of households: Non-permanent workers	26		1		15	26
39(c)	Residence of households: Ships' crew and patients	25				15	25
40	**Goods sent abroad for processing**	**17**	**4**	**7**	**1**	**14**	**21**
42	Retained earnings on mutual funds and other collective investment schemes	17				16	17
43(a)	Interest on index-linked debt instruments	16		1		16	16
43(a)	Debt instruments linked to a foreign currency	19				16	19
43(c)	Fees on securities lending and reversible gold transactions	22				16	22
44(c)	Distinction between loans and deposits	24				15	24
44(d)	Traded loans (Borderline between Securities and Other Financial Instruments)	21				15	21

5. It is readily apparent from the table that recommendations of the AEG have been overwhelmingly supported by countries on all issues except two. The two issues, shown in bold, are issue no. 16 (including a return to capital, viewed as an opportunity cost, in

the measurement of non-market output) and issue no. 40 (goods sent abroad for processing). The regional distribution of country responses and reasons for disagreement on these two issues are discussed below.

Issue 16. Government and other Non-Market Producers' Owned Assets—Cost of Capital Services

6. This issue of including a return to capital in the measurement of non-market output has been discussed by the AEG over two meetings in December 2004 and July 2005. The regional distribution of country response in two global consultations is given in Table 3. The patterns of response on the two occasions are more or less similar. Reasons stated for objection to the decision relating to issue 16 include conceptual - the difference between market and non-market producers regarding their role in the production process is ignored when giving up the convention of zero net operating surplus; and practical – choosing a rate of return, range of assets to be covered, non-availability of reliable estimates of capital stock for many developing countries and it may be difficult to maintain international comparability.

Table 3. Regional distribution of country comments for issue 16 -Government and other Non-Market Producers' owned assets

Region	Sub Region	Country	AEG Recommendation made in	
			Dec-2004	Jul-2005
Africa	Eastern Africa	Malawi	A	
	Eastern Africa	Mozambique		A
	Eastern Africa	Tanzania	RI/RI*	
	Southern Africa	Botswana	RI	A/FC*
	Southern Africa	South Africa	D/D*	
	Western Africa	Ghana	A	
	Western Africa	Sierra Leone	A	
Americas	Caribbean	Cuba		A
	Caribbean	Trinidad and Tobago	A	
	Central America	Honduras	A	
	Central America	Mexico		A
	Central America	Nicaragua		D
	Northern America	Canada		A
	Northern America	United States	A	A
	South America	Brazil		RI
	South America	Chile	RI	
	South America	Colombia	RI	
	South America	Venezuela	D	
Asia	Eastern Asia	China		A
	Eastern Asia	Hong Kong, SAR China	A	
	Eastern Asia	Macao SAR China	RI	
	Eastern Asia	Republic of Korea	RI	
	South Central Asia	India	A	
	South Central Asia	Iran	A/A*	RI
	South Central Asia	Maldives	RI	
	South Central Asia	Pakistan	RI/RI*	A
	South Central Asia	Tajikistan		D
	South-Eastern Asia	Indonesia	A	
	South-Eastern Asia	Philippines	RI	
	South-Eastern Asia	Singapore		RI
	South-Eastern Asia	Vietnam	D	D
	Western Asia	Israel	A	
	Western Asia	Jordan	D	

Region	Sub Region	Country	AEG Recommendation made in	
			Dec-2004	Jul-2005
	Western Asia	Kuwait	A	A/RI*
	Western Asia	Palestinian		FC
	Western Asia	Turkey	A	
Europe	Eastern Europe	Czech Republic	D/D*	
	Eastern Europe	Poland	D/D*	
	Eastern Europe	Russian Federation	D	D
	Eastern Europe	Slovakia		FC
	Northern Europe	Denmark	RI	D
	Northern Europe	Estonia		D
	Northern Europe	Finland	D	RI
	Northern Europe	Norway	A	A
	Northern Europe	Sweden	D	
	Northern Europe	United Kingdom	A	A
	Southern Europe	Greece	A	
	Southern Europe	Italy	A	A
	Southern Europe	Serbia and Montenegro		A
	Southern Europe	Slovenia		D
	Western Europe	Austria		D
	Western Europe	France	D	RI
	Western Europe	Germany	D	D
	Western Europe	Netherlands	A	A
	Western Europe	Switzerland		RI
Oceania	Australia & New Zealand	Australia	A	A
			A=20 RI=12 D=14	A=15 RI=7 D=10 FC=3

* two responses one each from the NSO and NB

7. An issue paper (document no. SNA/M1.06/07) addressing these issues has been prepared for the deliberations of the AEG in January-February 2006.

Issue 40. Goods sent abroad for processing

8. The regional distribution of the 44 country responses received so far (A=17, RI=4, D=7, FC=1 and NC=14). is given in Table 4. (Countries responding no comments – NC have not been shown in the Table.)

Table 4: Regional distribution of country comments for issue 40 - Goods sent abroad for processing

Region	Sub Region	Country	AEG Recommendation made in Jul-05
	Eastern Africa	Kenya	A
Africa	Southern Africa	Botswana	A
Americas	Central America	Nicaragua	A
	Northern America	Canada	D
	Northern America	United States	D
	South America	Brazil	D
	South America	Chile	RI
Asia	Eastern Asia	China	A
	Eastern Asia	Hong Kong SAR China	D
	Eastern Asia	Republic of Korea	RI
	South Central Asia	Kazakhstan	A
	South Central Asia	Pakistan	A
	South-Eastern Asia	Vietnam	RI/RI*

Region	Sub Region	Country	AEG Recommendation made in Jul-05
	Western Asia	Turkey	A
Europe	Eastern Europe	Republic of Moldova	D
	Eastern Europe	Russian Federation	A
	Eastern Europe	Slovakia	A
	Northern Europe	Denmark	A
	Northern Europe	Finland	FC
	Northern Europe	Norway	D
	Northern Europe	United Kingdom	A
	Southern Europe	Croatia	A
	Southern Europe	Italy	A
	Southern Europe	Serbia and Montenegro	A
	Southern Europe	TFYR Macedonia	D
	Western Europe	France	A
	Western Europe	Netherlands	A
Oceania	Australia & New Zealand	Australia	A

* two responses one each from the NSO and NB

Comments/arguments advanced against the AEG recommendation relating to issue 40 mainly relate to difficulty in collecting reliable data for implementation. It has been mentioned that since merchandise trade statistics are based on customs returns, they do not distinguish between goods for processing and other merchandise trade. Reliable estimates of trade in goods for processing would therefore have to be obtained through well-structured surveys for derivation of imports and exports of goods.

Annex-1

Statement 1: Country comments on the recommendations of the AEG

Country/Expert		**# 1**	**4a**	**# 9**	**#11**	**#12**	**#15**	**#16**	**#20**	**#22**	**#23**	**#25c**	**#31**	**#35**	**#36**	**#37**	**#38b**	**#39c NPW**	**#39c SCP**	**#40**	**#42**	**#43a Int**	**#43a Debt**	**#43c**	**#44c**	**#44d**
Armenia	NSO	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC
	NB																									
Australia	NSO	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
	NB																									
Austria	NSO							D																		
	NB																									
Belarus	NSO																									
	NB	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC
Bermuda	NSO	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC
	NB																									
Brazil	NSO	NC	A	NC	A	A	A	RI	NC	A	A	A	NC	A	A	NC	A	NC	NC	D	NC	NC	NC	NC	NC	NC
	NB																									
Botswana	NSO	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
	NB							FC																		
Bulgaria	NSO																									
	NB																A									
Cambodia	NSO				A	A			A				A													
	NB																									
Canada	NSO	A	A	A	A	A	A	A	A	FC	A	A	A	A	A	A	A	A	A	D	A	A	A	A	A	A
	NB																									
Chile	NSO																									
	NB										A		A	A	A		A			RI		A			A	
China	NSO																									
	NB	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Croatia	NSO																									
	NB		A													A	A	A	A	A						
Colombia	NSO																									
	NB	A	A															D							A	A
Cuba	NSO			A	A	A		A										A	A							
	NB																									
Cyprus	NSO																									
	NB	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC
Czech Republic	NSO																									
	NB	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC

Country/Expert		**# 1**	**4a**	**# 9**	**#11**	**#12**	**#15**	**#16**	**#20**	**#22**	**#23**	**#25c**	**#31**	**#35**	**#36**	**#37**	**#38b**	**#39c NPW**	**#39c SCP**	**#40**	**#42**	**#43a Int**	**#43a Debt**	**#43c**	**#44c**	**#44d**
Estonia	NSO			A			A	D																		
	NB																									
Denmark	NSO	A	A	D	A	A	A	D	A	A	A	A	A	A	A	A	A	A	A	A	A		A	A	A	A
	NB																									
Finland	NSO			RI			A	RI	A			A								FC						
	NB																									
France	NSO	A	A	A	A	A	A	RI	A	A	A	A				FC	A	A	A	A	A	A	A	A	A	A
	NB																									
Germany	NSO			D	D	A	D	D	A	A	A	A	A	A	A	A										
	NB		D																							
Hong Kong, China	NSO			A						A										D						
	NB																									
Iran	NSO					A	A	RI	A						A											
	NB																									
Israel	NSO	A		A	A	A	A		A	A	A	A		A		A	D	A						A		A
	NB																									
Italy	NSO	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
	NB																									
Japan	NSO	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC
	NB																									
Kazakhstan	NSO																									
	NB											A					D	A	A	A			A	A	A	A
Kenya	NSO		NC		RI	A	A		A	A		A	A			NC		A	A	A						
	NB																									
Korea, South	NSO																									
	NB	A	A	A	A	A	A	RI	A	A	A	A	A	A	A	A	A	A	A	RI	A	A	A	A	A	A
Kuwait	NSO			A	A	A		A			A															
	NB																									
Lithuania	NSO		A	A	A	A	FC																			
	NB																									
Latvia	NSO	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC
	NB	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC
Macedonia	NSO																									
	NB	A										A					A	A	A	D				A	A	
Malawi	NSO	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC
	NB																									
Mexico	NSO			A	A	A	A	A																		
	NB																									

Country/Expert		# 1	4a	# 9	#11	#12	#15	#16	#20	#22	#23	#25c	#31	#35	#36	#37	#38b	#39c NPW	#39c SCP	#40	#42	#43a Int	#43a Debt	#43c	#44c	#44d
Moldova	NSO																									
	NB		A													A	A	A	A	D			A	A		
Mozambique	NSO							A				A														
	NB																									
Netherlands	NSO	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
	NB																									
Nicaragua	NSO																									
	NB					A		D							A			A	A	A					A	
Norway	NSO	NC	NC	A	A	A	A	A	A	A	A	A	A	A	A	NC	A	A	A	D	A	NC	NC	NC	A	A
	NB	A	A									A					A				A	D	A		A	A
Palestine	NSO			A	A		A	FC	A		A				A											
	NB																									
Pakistan	NSO																									
	NB	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Poland	NSO	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC
	NB	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC
Romania	NSO	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC
	NB																									
Russia	NSO	A	A	A	A	A	A	D	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
	NB																									
Serbia &	NSO	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Montenegro	NB																									
Singapore	NSO		A		A	A		RI				A														
	NB																									
Slovakia	NSO	A	A	A	A	A	A	FC	A	A	A	A	A	A	A	A	A			A	A	A	A	A	A	A
	NB																									
Slovenia	NSO			RI		D		D																		
	NB																									
Switzerland	NSO							RI																		
	NB																									
Tajikistan	NSO		A		A	A		D	A			A					A									
	NB																									
Timor-Leste	NSO	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC
	NB																									
Turkey	NSO	A	A	A	A	A	A		A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
	NB	A																							A	
Ukraine	NSO	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC
	NB																									

Country/Expert		# 1	4a	# 9	#11	#12	#15	#16	#20	#22	#23	#25c	#31	#35	#36	#37	#38b	#39c NPW	#39c SCP	#40	#42	#43a Int	#43a Debt	#43c	#44c	#44d
U.K.	NSO	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
	NB																									
USA	NSO	A	A	A	A	A	A	A	A	A	A	A	RI	D	NC	A	A	A	A	D	NC	A	A	A	A	A
	NB																									
Vietnam	NSO		A	A	A	A	A	D	A		A	A	A		A			A	A	RI				A		
	NB		A	A	A	A	A	D	A	A		A	A		A			A	A	RI				A		
Total	NSO	A= 14 NC=11	A= 17 NC=11	A=16 D=2 RI=2 NC=10	A=25 D=1 RI=1 NC=9	A=27 D=1 NC=9	A=23 D=1 FC= 1 NC=8	A=13 D=8 RI=6 FC=2 NC=9	A=23 NC=10	A=18 NC=9 FC=1	A=20 NC=9	A= 21 NC=9	A= 16 RI=1 NC=10	A=15 D=1 NC=9	A=17 NC=10	A=14 NC=11 FC=1	A=17 D=1 NC=9	A=17 NC=10	A=16 NC=10	A=12 RI=1 D=5 FC=1 NC=9	A=13 NC=11	A=12 NC=11	A=13 NC=11	A=15 NC=11	A=14 NC=10	A= 15 NC=10
	NB	A= 7 NC=5	A= 8 D=1 NC=5	A=4 NC=5	A= 4 NC=6	A= 5 NC=5	A= 4 NC=5	A=2 D=2 RI=1 FC=1 NC=5	A= 4 NC=5	A= 4 NC=5	A= 5 NC=5	A=7 NC=5	A= 5 NC= 5	A= 4 NC=5	A=6 NC=5	A=5 NC=5	A=8 D=1 NC=5	A=9 D=1 NC=5	A=9 NC=5	A=5 D=2 RI=3 NC=5	A=4 NC=5	A=4 D=1 NC=5	A=6 NC=5	A=7 NC=5	A=10 NC=5	A= 6 NC=5

A: Agrees with the proposal **RI**: **R**eservation/Difficulty in **I**mplementation **D**: Disagrees with the proposal
NC: No Comments **FC**: Further Clarification/analysis required

Annex-II

JULY 2005 AEG RECOMMENDATIONS[2]

Issue 1: Repurchase Agreements

1. 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?

AEG Recommendations

2. The AEG agreed that:
   - (i) There should be no change to the current SNA treatment
   - (ii) The issue should remain on the research agenda
   - (iii) Following clarifications should be added
     - (a) added explanations on securities lending and gold loans
     - (b) remove reference about not being able to on-sell
     - (c) treating short positions as negative assets

Issue 4(a): Non-performing Loans

3. The issue under consideration is 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).

AEG Recommendations

4. The AEG agreed that
   - (i) the proposed definition of NPL, namely, A loan is nonperforming when payments of interest and/or principal are past due by 90 days or more, interest payment equal to 90 days or more have been capitalized, refinanced or delayed by agreement, or payments are less than 90 days overdue, but there are other good reasons to doubt that payments will be made in full.
   - (ii) It should be used as an indicative guideline rather than being prescriptive.
   - (iii) valuation basis for NPLs should be a market equivalent valuation. If a fair value figure is not available, an acceptable alternative is nominal value less expected loan losses.
   - (iv) It would be desirable to have an explanatory presentation in the SNA showing how the memorandum item for stocks of loans and that for flows of interest are connected, even if in practice the memorandum items were shown without the linking information.
   - (v) A term such as "standard item" should be used in the SNA text rather than a more didactic term such as "mandatory" or "compulsory".
   - (vi) The decision made at the December 2004 AEG meeting to show as standard items NPLs for financial institutions and government as creditors was reconfirmed. They may be shown for other sectors as supplementary items,

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[2] The descriptions of issues and the recommendation are from the summary conclusions of the meeting available at http://unstats.un.org/unsd/nationalaccount/aeg.htm

(vii) For treatment of FISIM, an example for each of the following three scenarios would be worked out and presented to the AEG for an e-discussion:
  (a) continue to estimate FISIM on NPLs and allocate to the corresponding borrowers, but consider how unpaid FISIM is recorded in the accounts in such a way as to increment principal outstanding
  (b) estimate FISIM on interest received (rather than receivable) and on interest payable so that FISIM is not attributed to NPLs
  (c) estimate FISIM on a basis including NPLs but allocate the whole amount of FISIM only to those borrowers currently servicing their loans.

(viii) The AEG would like further consideration of how long interest accrues and for how long FISIM is calculated on an NPL.

(ix) An extension of the treatment of non-performance on other instruments was considered to be conceptually correct and can be shown as supplementary items.

<u>Issue 9: Research and Development</u>

5. The SNA currently does not recognize the output of R&D as capital formation. If all R&D covered by the Frascati Manual should be included in the asset boundary, the practical difficulties of deriving satisfactory estimates have to be addressed, such as using expenditure data collected as per the Frascati Manual (FM), and obtaining appropriate deflators and service lives. If these difficulties can be satisfactorily overcome, then a proposal is likely to be made to the effect that the SNA should be amended to treat R&D expenditure in a similar way to mineral exploration.

AEG Recommendations:

6. The AEG agreed that:

(i) Outputs of R&D should be recognised as assets.

(ii) Though, R&D made freely available can not theoretically be treated as assets however, because the amount of such an R&D is likely to be small and difficult to identify, in practice they might not be excluded.

(iii) F M definition of R&D may be used with the clarifying explanation that this does not imply that human capital is treated as an asset in the SNA

(iv) The FM should be amended to better support the needs of the SNA.

(v) Most R&D output is produced over several periods and the SNA recommendations for the production of other assets should apply. Most R&D production is on own account, which implies recording it as GFCF as it occurs under the current recommendations.

(vi) Patented entities will no longer be separately identified as such in the system, but they will be subsumed into R&D assets

<u>Issue 11: Originals and Copies</u>

7. 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?

AEG Recommendations

8. The AEG agreed that:

(i) Annual licence fees for software without a long-term contract should not be treated as fixed capital; instead the payments should be treated as rentals.

(ii) In general, software should be treated in a similar way to any other asset. As a result, a long-term lease of software can be treated as a financial lease.

(iii) If a large initial payment is followed by a series of smaller annual fees, the initial payment is treated as fixed capital formation and the annual fees as a service charge.

Issue 12: Databases

9. 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?

AEG Recommendations

10. Arising from the e-discussion and the follow-up discussion in the meeting, the AEG agreed the following in respect of own-account databases:

(a) databases holding data with a useful life of more than one year are fixed assets

(b) the value of the software component of databases, the DBMS, would normally be recorded elsewhere as a software asset

(c) the remaining value of the database should only include the costs involved in converting data from one medium/format to that required by the DBMS, including the application costs (adapting the software for a particular application, setting up the structure of the database, loading metadata, etc.), but should exclude the costs of acquiring the data themselves

(d) no maintenance is entailed with databases and all updating costs should be recorded as capital formation

(e) the value of databases should be estimated using a sum-of-costs approach, in the absence of a more satisfactory alternative.

The value of databases for sale includes the value of the information content.

Issue 15: Costs of Capital Services

11. 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?

AEG Recommendations

12. The AEG:

(a) confirmed the importance of including the concept of capital services in the updated SNA

(b) strongly supported including the estimates of capital services in supplementary tables rather than in the core accounts of the SNA

(c) confirmed that capital services (comprising depreciation and return to capital) and capital stock measures should be compiled in an integrated and consistent manner

(d) agreed that the basic concepts of the capital services approach be presented in the SNA and that the detailed recommendations would be elaborated in an updated version of the OECD manual on "Measuring Capital"[2]

(e) agreed that the concepts underlying the formulae presented in the paper ("Cost of capital services", document number SNA/M1.05/04; Issue 15) are appropriate, subject to detailed checking.

Issue 16: Government Owned Assets – cost of capital services

13. Capital services from government-owned assets, which are used in the production of government services, are currently 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?

AEG Recommendation

14. The AEG reaffirmed the principle to include a return to capital on non-financial assets used in non-market production. It was agreed to follow-up on a one-on-one basis the comments from the global and country consultations, including those comments on the scope, and report back to the next AEG Meeting in early 2006.

Issue 20: Treatment of Land improvements

15. The AEG at its meeting in December 2004 had decided that the boundary between land improvements and structures should be re-examined with a view to moving some items such as major dykes, seawalls, etc. to structures. The matter was subsequently discussed by the AEG through e-discussion.

AEG Recommendations

16. The AEG agreed unanimously that assets that result from activities such as land clearance, land contouring, creation of wells and watering holes which are integral to the land in question and which are carried out by the landowner are to be treated as part of land improvements. Assets that result from activities such as the creation of sea walls, dykes, dams and major irrigation systems which are in the vicinity of the land but are not integral to it, often affect land belonging to several owners and which are often carried out by government, are to be classified as structures.

Issue 22: Purchased goodwill and marketing assets

17. 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.?

AEG Recommendations

18. The AEG agreed that:

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[2] It was agreed in later discussion related to the manual that it is important that it should give due consideration to the position of countries with less developed statistical systems.

(i) the nature of purchased goodwill be clarified in 1993 SNA.

(ii) Although marketing assets are normally identifiable as separate assets from goodwill, they be included in the same asset category as purchased goodwill. In the main, the value of marketing assets would only be available when a business is sold, and even then they could be bundled with goodwill. When a separate transaction does occur, it should be recorded,

(iii) purchased goodwill and marketing assets should be calculated as the excess of the purchase (or takeover) value of a business over the value of the other assets and liabilities otherwise identified in the SNA system for that business. The same calculation should apply for both unincorporated businesses (including quasi corporations) and all incorporated businesses.

(iv) internally generated goodwill and marketing assets should be excluded except where they are evidenced by a sale. It also reaffirmed that in any one accounting period there is no reason for the sum of all recorded and unrecorded assets less liabilities of corporations to be exactly equal to the value of shares and other equity held by the owners (and recorded as a liability in the corporation sectors' balance sheet). However, given rational markets it could be expected to show reasonable correspondence over the medium term. This should be made explicit in SNA.

(v) purchased goodwill and marketing assets continue to be treated as 'non-produced' assets in SNA. However, further consideration will be given to whether a terminology can be found that better reflects the nature of these assets.

(vi) the 1993 SNA discussion of the amortisation of purchased goodwill and marketing assets be changed to reflect the impairment approach adopted in the international accounting standards.

<u>Issue 23: Obsolescence and depreciation</u>

19. 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?

AEG Recommendations

20. The AEG agreed that:

(a) the current text of the 1993 SNA (Para.10.118) relating to depreciation should reflect the accepted practice that “average prices” refers to the average price of an asset at constant quality

(b) the relationship of this recommendation to the concept of income needs to be considered

(c) the detailed practical guidance on measuring depreciation should be provided in an updated version of the OECD manual on “Measuring Capital”

(d) it is important that the above-mentioned manual should give due consideration to the aspects of countries with less developed statistical systems.

<u>Issue 25(c): Treatment of multi-territory enterprises</u>

21. For multi-territory enterprises that operate as a single legal entity in more than one territory, principles have to be adopted whether to allocate the unit to the predominant territory or to use pro rata splitting.

AEG Recommendation

22. The AEG accepted the recommendation of the prorating of multi-territory enterprises and enterprises in joint sovereignty and joint jurisdiction zones, but did not make suggestions on additional possible criteria.

<u>Issue 31: Water as an asset</u>

23. 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.

AEG Recommendation

24. The AEG agreed that:

(a) the definition of water resources be extended to cover rivers, lakes, artificial reservoirs as well as other surface catchments in addition to aquifers and other groundwater resources.

(b) the SNA include guidance that water bodies should in principle be valued in a manner parallel to the valuation of mineral resources but with an indication that more pragmatic alternatives may have to be used such as estimates based on access fees.

(c) The phrase "and associated surface water" should be added to land under cultivation.

(d) It may be that the surface land associated with a water body is relatively small and of little value separately from the water body. In keeping with the recommendation on buildings and land under buildings, land and associated surface water should be allocated to either a category of land or to water resources depending on which element has the greater value.

(e) The value of an artificial reservoir full of water may exceed the cost of building and maintaining the reservoir but this addition represents the value of the water per se. In principle this addition should be recognised as the value of the non-produced water resource but as noted in connection with land, it may not be possible to separate these in practice and in that case the allocation should be made between the reservoir and the water resource according to which has the greater value.

(f) By extension of the treatment of carrying water as the production of a good and similar treatment of bottling and branding water, distribution of main water should be treated as the production of a good (water) and not just a service of moving water from one place to another. This is also consistent with the move to charge for mains water on a volumetric basis.

This could have implications for the proposed CPC classification of distribution of water (as a service). The SNA editor agreed to discuss the implications with classification experts and report back to the next AEG meeting.

(g) The proposal namely, where fees are levied for permission to deposit waste water into a body of water the fees should be treated in the same way as other fees to use natural resources, noting that the exact modalities for this are yet to be agreed by the Canberra II Group, need to investigated further.

(h) An update on the situation following the next Canberra II Group meeting will be presented to the next AEG meeting.

Issue 35: Tax revenues, uncollectible taxes and tax credits

25. Expensing tax credit separately for tax revenue is increasingly hampered by the fact that source data may not allow separate recording of expenses, reducing internal comparability. Moreover, uncollectible taxes should not be expected to accrue. An estimated uncollectible amount based on experience could be either deducted from the gross amount under the accrual principle (‘net recording”) or alternatively recorded as capital transfer (“gross recording”). Another alternative treatment would record unpaid taxes via the other change in volume accounts. Time of recording is an issue for income and wealth tax. For instance, for households it might be preferred to record the taxes at the time of assessment because it affects behavior at that time. This treatment would be a deviation from the accrual principle that calls for recording taxes when the obligation to pay arises.

AEG Recommendations

26. **Definition and coverage of a tax:** The AEG noted that the TFHPSA paper focussed mainly on refining existing SNA text rather than on redefining existing principles. The AEG felt strongly that the definition and coverage of a tax should be set out clearly, with some examples. The examples should illustrate the underlying concepts but should not suggest that they are exhaustive or prescriptive. It is important not to try to produce a comprehensive list of treatments.

(b) Accrual recording: Taxes are to be recorded on an accrual basis. The expression “due for payment” should be replaced by “accruals”. The discussion focussed almost exclusively on the question of whether amounts should be recorded on a net or a gross basis. The principle of not including taxes that are uncollectible and/or unlikely to be collected and so affect the government surplus/deficit was agreed. Because the AEG could not agree which of the three methods in the paper was preferred, it was decided to leave the SNA unchanged in this regard.

(c) Tax credits: A clear majority of the AEG decided that payable tax credits should be recorded on a gross basis. The presentation should permit the derivation of tax credits on a net basis also. It was decided that the best way forward would be for the TFHPSA to prepare the proposed free-standing chapter for the SNA covering all the questions on taxes[3]. This draft should include the rationale for the changes proposed and emphasise the underlying concepts and principles. The SNA Editor in consultation with the Project Manager and the ISWGNA will review the text to identify changes in substance and in drafting to the 1993 SNA. A report on this process will be submitted to the AEG.

Issue 37: Granting of guarantees

27. This issue basically pertains to the formulation of the treatment of flows between the original debtor and creditor and between the original debtor and guarantor when the guarantee is activated or between debtor and creditor when collateral is called by the creditor. While the 1993 SNA does not treat these flows, GFSM 2001 describes the treatment of debt assumption involving general government: either acquisition of financial asset, acquisition of equity, capital transfer, or other volume changes. In addition, this issue addresses the recognition of constructive obligations which are not legally enforceable liabilities but are nevertheless expected to result in

[3] It was agreed retrospectively that this should apply to the recommendations on the issues concerning the delineation of the government and public sector also.

outflows. The recognition of the latter would result in the relaxation of the economic asset boundary.

28. The AEG discussed the following proposals, namely:

(i) The proposed treatment of guarantees should distinguish between (a) guarantees tradable or offsettable on the market; (b) standardised guarantees; and (c) one-off guarantees.

(ii) Guarantees tradable or offsettable on the market should be treated as financial derivatives.

(iii) Standardised guarantees should be treated as ‘insurance technical reserves’ (AF.6). Within this financial instrument AF.6, a new sub-category should be created as ‘standardised guarantees’ (F.63).

  (a) The lender should have the counterpart asset.

  (b) If the guarantor unit sells the guarantee for a premium that does not cover the expected loss and administration costs, a subsidy / capital transfer to the lender should be imputed.

(iv) One-off guarantees should be recorded outside the core accounts, either in a memorandum item or, preferably, in a supplementary set of accounts, where a consistent recording of the involved flows and stocks would be provided.

As in the case of provisions on non-performing loans, a sufficiently prominent status should be given to this information to ensure that it is reported in practice.

AEG recommendations:

29. The AEG was in favour of accepting all the recommendations in principle. However, a number of details need to be clarified (e.g. a payment appears to be treated as a capital transfer in one part of the paper and as a current transfer in another, and the exact nature of the parallel with insurance). The AEG agreed that a revised version of the paper combining the granting and activation of guarantees should be prepared for e-discussion.

<u>Issue 38(b): Migrants’ transfers</u>

30. The flows of goods and changes in financial account arising from a change in residence of individuals are treated as imputed transactions in the BPM5, which are offset in the capital account by capital transfers called migrants’ transfers. The 1993 SNA is not explicit on this account. Because no change in ownership occurs, it is proposed that changes in financial claims and liabilities due to change in residence of individuals be treated as reclassification in other changes in volume account.

AEG Recommendations:

31. The AEG agreed that:

(i) Although a flow of goods is recorded when individuals change residence to a new country, but the observed flow of goods should not be classified as exports and imports in balance of payments statistics. Therefore, adjustments to trade data should remove ‘personal effects’ from the goods account of the current account. No contra-entry in “capital transfers” will be required.

(ii) Relocating financial assets on account of change of residence should be recorded as a financial account transaction, unrelated to the migration of the investor.

(iii) It was confirmed that enterprises seldom change location; in general an enterprise in one location is dissolved and another is formed in another location. However, there were specific but limited examples (for example within the European Union) where an enterprise may change residence, in which case the same rules would apply as for households.

Issue 39(c): Residence of households: Non-permanent workers

32. For those enterprises and other entities, production and location might not be useful criteria. As a result, the jurisdiction that allows the creation of and regulates the entity will be considered as the entity's predominant centre of interest. In case of non-permanent workers with connections to two or more territories, it would be useful to prepare supplementary presentation for countries where the number of non-permanent resident persons is significant, bringing together relevant components of contract services, compensation of employees, workers' remittances and migrants' transfers with short-term non-resident workers. Also harmonization of the residence concept with demographic, tourism, and migration statistics should be sought and any remaining differences spelt out.

AEG Recommendations

33. The AEG agreed that

(a) Use exclusively the concept of resident and eliminate the concept of migrant from the balance of payments and national accounts frameworks;
(b) Replace workers remittances with a new component "personal transfers" that covers all current household-to-household transfers;
(c) Introduce the concept of "personal remittances" to include all household-to-household transfers (current and capital) as well as net compensation of employee (net of taxes on income, social security contributions, travel and passengers' transportation;
(d) Introduce the concept of institutional remittances to include all transfers receivable by households and NPISHs, excluding personal remittances.

Issue 39(c): Residence of households: Ships' crew and patients

34. In current standards, crew members of ships, aircraft, or other mobile equipment operating partly or wholly outside an economic territory are regarded as residents of the territory where the crew member spends most time other than time on board. The alternative would be to treat them as residents of the economy from which the equipment is operated.

AEG Recommendations

35. The AEG agreed with the continuation of the existing treatment of ships' crew and similar cases as residents of the economy where they spend the most time other than on board. The AEG also agreed with the continuation of the existing treatment of patients as residents of the home country.

Issue 40: Goods sent abroad for processing

36. The BPM5 and the 1993 SNA treat the goods sent abroad for processing differently. The BPM5, as a practical matter, suggest a convention that all processing be assumed substantial and therefore gross flows are recorded. The 1993 SNA only records gross flows in case of substantial processing (reclassification of the good at three digits CPC). The issue is that no change in ownership and thus transaction takes place. Moreover, can a distinction be made between the different levels of processing? It is mentioned that the current treatment of goods for processing in the 1993 SNA was to facilitate input-output analysis. Therefore, any change should take into account this issue.

AEG Recommendation

37. The AEG agreed that the current situation is undesirable. There was a clear majority for never imputing a change of ownership for goods being sent abroad for processing. The same approach of not imputing change of ownership for goods being processed domestically should be adopted in all cases even if it is between related enterprises.

Issue 42: Retained earnings on mutual funds and other collective investment schemes

38. In the 1993 SNA retained earnings of an entity are generally treated as the income and saving of the entity, rather than the owner. However, exceptions are made for life insurance companies, pension funds and foreign direct investment companies, where there is an imputed flow to the policyholders, beneficiaries, and owners, with an equal financial account flow. The ESA 95 introduces an imputed transaction for the retained earnings of the mutual funds where income is attributed to the investors and then reinvested in the fund. That treatment brings about some consistency with the treatment of life insurance and pension funds which are other types of collective investment schemes. Other symmetries of the treatment of retained earning have been suggested, either expand or reduce the imputations. Moreover, the issue of negative earnings has to be addressed.

AEG Recommendations

39. The AEG agree on the principle of recording retained earnings in investment funds in a similar way to income attributed to insurance policy holders. The AEG requested further clarification on the exact recording of the property income flow, the definition of retained earnings and an elaboration of the parallel with insurance transactions. This clarification should also consider the role of holding gains in the attribution of income to share holders. Some of these questions will be dealt with by e-discussion before the next AEG meeting.

40. The AEG considered the definition of investment funds needs to be further refined and the terminology to be adopted for the unit and the instrument to be re-examined. The e-discussion forum covering questions associated with recommendation (b) should cover these aspects also.

Issue 43(a): Interest on index-linked debt instruments

41. For index-linked debt instruments, changes in principal arising from indexation are recorded as interest. However, should both creditor and debtor approaches for index-linked debt instruments be clarified? Moreover, the 1993 SNA, BPM5 and other manuals mention exchange rates as one of various indicators to which indexation can be linked. However, they are not explicit on whether debt instruments with both principal and interest indexed to a foreign currency should be treated similarly to index-linked instruments or to foreign currency debt instrument.

AEG recommendations:

42. The AEG considered the following options:

- **(a)** Keeping the 1993 SNA unchanged for the concept of interest and not allowing revisions of interest
- **(b)** Keeping the 1993 SNA unchanged for the concept of interest, and accepting revisions of interest accruals that will be determined in each accounting period either (i) by using the movement in the relevant index in each accounting period and revising interest when actual redemption value is known, or (ii) by using the most recent observation of the relevant index and revising interest continuously.
- **(c)** Clarifying or changing the 1993 SNA for defining interest on index-linked instruments by fixing the rate of accrual at the time of issue, and treating any deviation of the index from the expected path as holding gains/losses.
- **(d)** Clarifying or changing the 1993 SNA for defining interest by regarding indexed-linked instruments as effectively including derivative contracts. This is similar to previous approach. However, interest is imputed based on a similar instrument that is not indexed and the value of the embedded derivative reflects the deviation (of the imputed interest) from actual movements in the relevant index.

43. By a slight majority the AEG opted for a dual approach of using option (a) or option (c) depending on the circumstances. In so doing, the AEG recommended that guidance be provided in the updated SNA on the situations in which one or the other of these options would be preferred. Broadly, option (a) would be recommended in situations in which a broad index is used, one expected to change relatively smoothly over time (such as when the CPI is involved) while option (c) would be used when a narrow index is used with the possibility of volatile movements (e.g. when the index relates to commodities). The AEG recognised that option (c) requires a change to be made to the SNA.

Issue 43(a): Debt instruments linked to a foreign currency

44. For index-linked debt instruments, changes in principal arising from indexation are recorded as interest. However, should both creditor and debtor approaches for index-linked debt instruments be clarified? Moreover, the 1993 SNA, BPM5 and other manuals mention exchange rates as one of various indicators to which indexation can be linked. However, they are not explicit on whether debt instruments with both principal and interest indexed to a foreign currency should be treated similarly to index-linked instruments or to foreign currency debt instrument.

AEG recommendations:

45. The AEG agreed with the BOPCOM conclusions that:

(a) debt instruments with both principal and coupons indexed to a foreign currency should be classified and treated as being denominated in that foreign currency; and
(b) the currency of account and currency of settlement should be clearly distinguished in the new manuals

Issue 43(c): Fees on securities lending and reversible gold transactions

46. Neither the 1993 SNA nor BPM5 discuss the issue of fees payable on securities lending and gold loans. The fee for securities lending is for putting a financial instrument at the disposal of another unit but it does not fit with the definition of interest when the legal ownership is transferred but the economic risks and rewards of the ownership remaining with the original owner. The fee payable on gold loans appears to be a payment for services as gold in this instance is non-monetary gold.

AEG recommendations:

47. The AEG agreed that:

(a) fees associated with securities lending and reversible gold transactions should be treated as property income. The AEG also noted the value of the fees involved is likely to be very small compared with other property income items.
(b) fees on securities lending and reversible gold transactions should be recorded entirely as interest, including amounts paid on loans of allocated [non-financial] gold.
(c) The AEG noted that there is no FISIM associated with the interest recorded for these fees.

Issue 44(c): Distinction between loans and deposits

48. The criteria to perform the distinction between deposits and loans are not very clear in most of international statistical standards. Furthermore, experience suggests that the analytical usefulness of this split may need to be further assessed, taking into account recent financial innovation. A particular problem is when a position between two parties, especially financial intermediaries, is seen as a deposit by one party and a loan by another. Should the distinction between loans and deposits be dropped or new criteria be developed for making the distinction?

AEG Recommendations:

49. The AEG agreed that

(a) the updated SNA should maintain a distinction between loans and deposits.

(b) current international standards do not provide sufficiently clear criteria to make a distinction between loans and deposits. Therefore there should be further consultation with experts to formulate improved operational guidelines to be set out in the updated SNA.

Issue 44(d): Traded loans (Borderline between Securities and Other Financial Instruments)

50. The basic distinction between securities and other instruments is based on tradability, but issues arise when an instrument initially a loan subsequently becomes traded or a security subsequently ceases to be traded. The main issue is to determine when and under what circumstances loans that are traded become debt securities and, vice versa, debt securities that are not traded cease to be securities.

51. The AEG considered the following options:

(a) traded loans are to be reclassified as securities if a loan becomes tradable and is, or has been, traded in the secondary market. Alternatively, traded loans not be reclassified as debt securities.

(b) If traded loans are reclassified as debt securities, should the definition of the requirements for a secondary market be elaborated according to the criteria in the External Debt Guide or some other criteria? whether, in addition to being tradable in secondary markets, there should be a requirement that the debtor is not legally prevented from buying back the debt.

(c) If traded loans are reclassified as debt securities, do flows arising from traded loans becoming securities be treated as reclassifications in other changes in assets and liabilities account?

(d) If traded loans are not reclassified, should loans be broken down between traded and non-traded loans? and

(e) un-traded securities should not be reclassified?

AEG Recommendations:

52. With respect to question (a), the AEG decided that the current SNA position should be maintained: that is, the loan should be reclassified as a security only if there is evidence of a market and there are quotations in the market. This change of category of financial instrument is achieved via a change in classification entry in the other changes in the volume of assets account and not via transactions cancelling the loan and issuing a security. The fact that a loan is sold once does not necessarily involve reclassifying the loan as a security.

53. Questions (b) and (c) were not considered by the AEG because in general traded loans would not be reclassified as debt securities – they would not change their classification status as a result of being sold. As regards question (d) there was agreement not to break down loans into traded and non-traded categories. With respect to question (e), the AEG agreed that untraded securities should not be reclassified