

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

Issue 42

Retained earnings of mutual funds,  
insurance companies and pension funds

**REPORT ON e-DISCUSSION ON  
RETAINED EARNINGS OF MUTUAL FUNDS,  
INSURANCE CORPORATIONS AND PENSION FUNDS**

**United Nations Statistics Division**

**Update of the 1993 SNA – Issue No. 42  
Jan-Feb 2006 AEG meeting, Frankfurt**

**Report on e-discussion on Retained Earnings of Mutual Funds,  
Insurance Corporations and Pension Funds**

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**Introduction**

1. The 1993 SNA follows the general rule that retained earnings of an entity are considered as income and saving of the entity, rather than of the owner. The only exceptions to this general rule apply to life insurance corporations, pension funds and (foreign) direct investment companies, for which imputed transactions are recorded as distribution of income to policyholders, beneficiaries, and direct investors (respectively), with offsetting entries in the financial account, as if the earnings were distributed and then reinvested in the companies.

2. In July 2005 the AEG unanimously supported the principle of recording retained earnings of investment funds in a similar way to income attributed to insurance policy holders. It requested further clarification on the (i) exact recording of the property income flow; (ii) definition of retained earnings and (iii) an elaboration of the parallel with insurance transactions. In addition, the AEG considered that the definition needs to be further refined and the terminology to be adopted for the unit and the instrument should be re-examined.

**Response received**

3. An issue paper (document no. SNA/M1.06/29.1) dealing with above issues was referred to the AEG members soliciting their opinions through a questionnaire. The questions asked of AEG members and responses received through e-discussions have been summarized in the following table.

**Table: Questions asked of the AEG members and response received as on 24 January 2006**

No.	Question(s)	Response received			
		Total	Agree	Disagree	No opinion
1	Do you agree to exclude holding gains or losses arising from investment funds' financial investment from property income attributed to holders of assets in these funds resulting from the net operating surplus of investment funds? At a later stage, the question could be part of a broader discussion, in particular of the definition of income itself, beyond the publication of the next edition of the SNA.	20	20	-	-
2	Do you agree that property income attributed to holders of investment funds on an accruals basis should be recorded as	20	18	2	-

No.	Question(s)	Response received			
		Total	Agree	Disagree	No opinion
	a new property income category 'property income attributed to holders of investment funds' which should be further split into 'dividends distributed to investment fund shareholders' and 'retained earnings attributed to investment fund shareholders'?				
3	Do you agree that the counter-entry of 'retained earnings attributed to investment fund shareholders' should be recorded as a new financial asset category 'investment fund shares/units'?	20	19	1	-

### Conclusions

4. The AEG members participating in the e-discussion overwhelmingly supported the recommendations. The comments suggest that the terminology could be further improved.

An extract of comments made by AEG members is annexed.

## Extract of Comments Made by AEG Members in the Questionnaire

The original response and full comments are available on the UN website<sup>1</sup>. The objective of this annex is only to give limited extracts to encourage readers to read the full comments of the AEG members.

### *Question 1*

- In relation to this issue, it is important to arrive at full consistency with the recording in the Balance of Payments.
- This treatment would be consistent with the retained earnings of direct investment enterprises used to calculate direct foreign investment reinvested earnings already included in the SNA. The concept should definitely be consistent in both cases.
- This treatment would also give a clear definition of retained earnings that links in with existing balancing items in the System, i.e. equals what would otherwise be saving of the mutual fund. The result is that the saving is imputed entirely to the owners of the fund, so there would be no saving left in the fund itself.
- Broader discussion of income should be put on the post-SNA-update research agenda.

### *Question 2*

- Property income distributed to shareholders should take the same form as earned by the investment fund. For example, if the fund invests in bonds and receives interest, its distributions should be recorded as interest. The distributions should be allocated to interest, dividends, and rent in proportion to its earnings of property income in those categories.
- More work is required to define 'investment funds'. Any definition should be generally applicable, and not rely on nomenclature, or on the institutional arrangement that exists in particular countries.
- A more neutral term may be used for the new transaction category, such as "Property income of holders of investment funds."
- The title "Dividends distributed to investment fund shareholders" is objectionable – it suggests "Dividends payable to investment fund shareholders" to emphasize the accrual, rather than cash, basis of the timing.
- In the title "Retained earnings attributed to investment fund shareholders", "attributed" should also be replaced by "attributable." In the 1993 SNA item for property income accrued to pension and insurance policyholders uses both "attributed" (e.g., page 181 and 573) and "attributable" (e.g., pages 578-9). "Attributable" is preferable, as being more consistent with the use of "payable" and "receivable", but in any case, one term should be adopted.
- Usefulness of the break down of the overall category in a paid (dividends) and a non-paid (retained earnings) part is doubtful, because it mixes elements of accrual with elements of payable.

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<sup>1</sup> <http://unstats.un.org/unsd/sna1993/viewvote.asp?tID=42&stID=0&sstID=0>