

**Fifth meeting of the Advisory Expert Group
on National Accounts**

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Report

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Introduction

- 1 A copy of the full text of Mr Cheung's opening statement can be accessed through the following link: <http://unstats.un.org/unsd/nationalaccount/statementCheung.pdf>.

Agenda

- 2 The draft agenda circulated on the morning of the meeting was accepted without amendment.
- 3 The topics in this report follow the order of the initial agenda, as attached to the end of this report. The agenda (SNA/M1.07/01) is also available at the following address: <http://unstats.un.org/unsd/nationalaccount/AEG/Papers/m5agenda.pdf>.

Report from the project manager

- 4 The paper for this session *Progress Report of the Project Manager* was presented by the Project Manager, Mrs Carol Carson. The full report is available at the following address: <http://unstats.un.org/unsd/nationalaccount/AEG/report250207.pdf>.
- 5 The Project Manager informed the AEG that she had presented a report on behalf of the ISWGNA to the recent UN Statistical Commission (*Documents Related to the Thirty-eight Statistical Commission's Consideration of the Recommendations for the Update of the 1993 SNA*). It is available on the UN website for the update at the following address: <http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5PMreport.pdf>.

Background to the meeting

- 6 The Advisory Expert Group (AEG) on National Accounts met for the fifth time at the United Nations in New York, 19-13 March, 2007. The main purpose of the meeting was to discuss major substantive comments on ten draft chapters of the draft *1993 SNA Rev 1*.
- 7 These chapters had been successively posted on the UNSD for comments starting in early October. These draft chapters are available at the following website <http://unstats.un.org/unsd/sna1993/draftingPhase/ChapterIssueMatrix.asp>, along with files that compare the draft version (flagged as the V2 version) along with the existing chapters (flagged as the V0 version) as well as a word by word comparison between V2 and V0. Each chapter is open for comments from national accounts experts for a period of sixty days from the date of posting. By early March, the comments period had expired for eight of the ten chapters posted by then. Comments on the remaining two chapters, posted on February 14 2007, were sought from members of the AEG in time for the AEG meeting (that is, within a thirty day period rather than sixty days).
- 8 The ISWGNA assembled all comments received on the ten chapters and identified issues that, because they revealed a lack of precision and/or completeness in the earlier AEG

recommendations, required further consideration by the AEG. The results of the AEG meeting will be used as input to the preparation of the revised draft chapters. At the same time, the many other comments received on the draft chapters, including editorial and less substantive comments, will be considered. The revised draft chapters of the framework of the accounts, including the recommendations on the 44 issues and 39 clarification items considered during the Update, is to be ready for the Statistical Commission in early 2008.

- 9 Following a discussion about the drafting process, the meeting took up the substantive comments chapter by chapter. The discussions are usually reported by presenting some background, a question, and the AEG response. The meeting also considered a chapter that was less advanced, implementation of the SNA Rev. 1, and research.

Perspectives on drafting

- 10 The Editor provided an overview of the work of drafting and some initial general responses to some of the kinds of comments on draft chapters that had been provided during the comment period.
- 11 The AEG provided the following advice to the Project Manager, the Editor and the ISWGNA regarding remaining chapters to be drafted
 - a. Most AEG members noted an unexpectedly large amount of reordered, new, or changed text, and urged the editor to focus on incorporation of the 44 issues and 39 clarifications into the existing SNA as a first priority to complete the remaining chapters in the remaining time.
 - b. Several AEG members also noted, on the other hand, that much of the changed material had improved the readability and accessibility of the text. They suggested, as a second priority and time permitting, that the Editor could continue to devote some effort to recrafting text to improve clarity of exposition.
- 12 The ISWGNA, the Editor, and the Project Manager will consider how best to operationalize these principles going forward. In the interest of minimizing changes to text, one possibility to implement AEG advice could be reconsideration of the design of comment forms for current SNA chapters under revision, focusing questions for comment on the specific selection of the 44 issues/39 clarifications and the paragraph locations these issues affect in each revised chapter. For essentially new chapters, the questions for comment could again focus on how the chapter deals with its selection of the 44 issues and 39 clarifications.

Chapter 10: the capital account

Documents and background

- 13 The documents for the discussion on this chapter were *Substantive Comments on the Draft Chapter 10: The capital account* (SNA/M1.07/06), *Substantive Comments on the Draft Chapter 10 - Addendum by the Editor* (SNA/M1.07/06.Add.1) and *Consolidated comments of the world-wide review on draft chapter 10*, which are available at:

<http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5chapter10.pdf> and
<http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5chapter10add.pdf> and
<http://unstats.un.org/unsd/nationalaccount/AEG/papers/ctemplate10.pdf> respectively.

- 14 There were two substantive questions, one concerning the treatment of fish stocks and fishing quota, the other concerning work-in-progress in agriculture.

Government permits - Treatment of fish stocks and fishing quotas

Background

- 15 The first question concerned the boundary of fish within territorial waters. Should the fish themselves be treated as an asset? Given that governments have the power to restrict fishing within their territorial waters, should fishing quotas be treated as assets, with their values based on the cost of the permits?

Question 1

- 16 Should fish and/or fishing quotas be treated as assets in the SNA?

Answer

- 17 In the context of answering this question:

1. Fish stocks can be assets.
 - 2.1 A payment to government to obtain a permit to undertake a specified activity is a tax unless it involves the use of a natural resource.
 - 2.2 When the payment is associated with the use of a natural resource, the six criteria associated with classifying mobile phone licences need to be used to determine whether the payment should be classified as payment for a resource rent or the purchase of an asset.
 - It follows that fishing quotas can be assets at the time they are issued by governments.
3. Natural resources are those appearing in the classification of assets (and exclude the atmosphere).
4. If the lessee subcontracts the resource lease at a premium, then the transaction gives rise to a further asset.

Measuring work in progress for agricultural crops

Background

- 18 The second question related to measuring quarterly work in progress for agricultural crops. In practice, a disproportionate part of the overall costs of growing crops is incurred in sowing the crop. If there is a poor growing season then there can be a problem with allocating value added across the growing season. The question posed to the AEG was

whether work in progress could be calculated using an average cost structure for all agriculture products rather than the average cost structure for the crop itself.

- 19 Paragraph 6.86 of the draft update reproduces the previous paragraph 6.39 and discusses the general case.

6.39 The output of most goods or services is usually recorded when their production is completed. However, when it takes a long time to produce a unit of output, it becomes necessary to recognize that output is being produced continuously and to record it as “work-in-progress”. For example, the production of certain agricultural goods or large durable goods such as ships or buildings may take months or years to complete. In such cases, it would distort economic reality to treat the output as if it were all produced at the moment of time when the process of production happens to terminate. In any case, whenever a process of production, however long or short, extends over two or more accounting periods, it is necessary to calculate the work-in-progress completed within each of the periods in order to be able to measure how much output is produced in each period.

- 20 The case of agricultural work in progress was previously discussed in paragraph 6.78.

6.78 It may be necessary to estimate the value of additions to work-in-progress in successive periods in advance of knowing what basic price will eventually be realized. In this situation, provisional estimates of the value of additions to work-in-progress should be made on the basis of the total production costs incurred each period plus a mark-up for expected operating surplus or estimated mixed income. Such estimates can be revised subsequently when the actual sale price, and hence actual operating surplus or mixed income, become known.

- 21 In the light of discussion on the valuation of work-in-progress in the context of the discussion on valuation of capital formation, the draft of the draft of SNA Rev. 1 reads as follows:

6.131 The measurement of the output of agriculture, forestry and fishing is complicated by the fact that the process of production may extend over many months, or even years. Many agricultural crops are annual with most costs incurred at the beginning of the season when the crop is sown and again at the end when it is harvested. However, immature crops have a value depending on their closeness to harvest. The value of the crop has to be spread over the year and treated as work-in-progress. Often the final value of the crop will differ from the estimate made of it and imputed to the growing crop before harvest. In such cases revisions to the early estimates will have to be made to reflect the actual outcome. When the crop is harvested, the cumulated value of work-in-progress is converted to inventories of finished goods that is then run down as it is used by the producer, sold or is lost to vermin.

6.132 Some plants and many animals take some years to reach maturity. In this case, the increase in their value is shown as output and treated as increases in fixed capital or inventories depending on whether the plant or animal yields repeat products or not. (There is more discussion of this distinction in chapter 10.) The value of the increase in the plants or animals should take account of the delay before the yield from them is realised as explained in chapter 19. Once the plant or animal has reached maturity, it will decline in value and this decline should be recorded as consumption of fixed capital (see below).

Question 2

22 Can agricultural output be allocated to quarters according to cost structure?

Answer

23 The draft SNA states that distributing agricultural output over quarters may be difficult and states that pragmatic allocation may be necessary. An acceptable method of allocation is according to the cost structure.

Chapter 11: the financial account

Documents and background

24 The documents for the discussion on this chapter were *Substantive Comments on the Draft Chapter 11: The financial account* (SNA/M1.07/07) and *Consolidated comments of the world-wide review on draft chapter 11*, which are available at: <http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5chapter11.pdf> and <http://unstats.un.org/unsd/nationalaccount/AEG/papers/ctemplate11.pdf> respectively.

25 There was only one substantive question for this chapter, concerning monetary gold.

Monetary gold

Background

26 The Manual on Balance of Payments and International Investment Position (BPM6) has been posted for comment by the IMF in draft form. The treatment of monetary gold is the only point of difference between BPM6 and the current positions held by the AEG on the SNA Update.

Question

27 Recent discussions concerning the draft BPM6 have suggested that unallocated gold accounts held by monetary authorities and treated as a reserve asset should be classified as monetary gold because foreign reserves are managed by treating physical gold and unallocated accounts as interchangeable. (A side consequence is that the previous concept of monetary gold is redesignated as gold bullion.) Should the SNA follow BPM6?

Answer

28 The AEG agreed, based on the following recommendations (set out in paragraphs 3 to 6 of Paper SNA/M1.07/07: *Substantive Comments on the Draft Chapters of the 1993 System of National Accounts Revision – Chapter 11, the Financial Account*), that the SNA should follow the BPM6.

3. Unallocated gold accounts held by monetary authorities as part of foreign reserves, *where the counterparty is a non-resident*, should be classified as monetary gold. So, it is suggested that the definition of monetary gold include physical gold (monetary gold as

defined in the 1993 SNA plus allocated gold accounts held by monetary authorities) and unallocated gold accounts held by monetary authorities with non-resident units. The rationale for this is that reserves are managed by treating physical gold and unallocated accounts as interchangeable.

4. Henceforward, monetary gold will (conceptually) consist of two sub-items. The first, to be referred to as gold bullion, will consist of physical gold and allocated gold accounts owned by monetary authorities (and others subject to the authorities' effective control) and held as a financial asset and as a component of foreign reserves. The second sub-item will be unallocated gold accounts held by monetary authorities (and others subject to the authorities' effective control) as a component of foreign reserves with non-resident units. In practice, for reasons of confidentiality, the two sub-items may not be shown separately.

5. Gold bullion remains an asset with no counterpart liability. Unallocated gold accounts do have a counterpart liability. When they are regarded as part of a country's foreign reserves, they are part of monetary gold (as stated above) and the counterpart is a liability of monetary gold in the rest of the world.

6. When unallocated gold accounts are not treated as part of a country's monetary gold, they are treated as currency and deposits on both the asset and liability side.

Chapter 12: other changes in assets accounts

Documents and background

29 The documents for the discussion on this chapter were *Substantive Comments on the Draft Chapter 12: The other changes in assets account* (SNA/M1.07/08) and *Consolidated comments of the world-wide review on draft chapter 12*, which are available at: <http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5chapter12.pdf> and <http://unstats.un.org/unsd/nationalaccount/AEG/papers/ctemplate12.pdf> respectively.

30 There were two substantive questions. One concerned the content of table 12.1 and one the treatment of livestock epidemics.

Table 12.1 – Other changes in the volume of assets account

Background

31 Thirteen countries and five international organisations commented on Chapter 12. Some of the comments related to quite specific issues but a large percentage of the comments indicated there is a more general problem with the layout of table 12.1. In particular, those commenting felt that the table is cluttered and tries to present too much detail with the outcome that several different levels of aggregates are jumbled together.

Question 1

32 To improve the presentation of the structure followed in Table 12.1, it was suggested that it would be useful to introduce a summary table showing only the main aggregates followed by three detailed tables:

- the appearance and disappearance of assets other than by transactions
- the effects of externalities on the value of assets
- changes in classification and structures.

A final table would show how these data sets feed into the balance sheets.

- 33 Would the above-mentioned steps to develop and clarify what is now table 12.1 overcome the present unease with it?

Answer

- 34 The AEG agreed to the suggestion to present the current Table 12.1 in stages as outlined.
- 35 The AEG acknowledged that any changes in the classification that would lead to changes in the codes should be done with caution but it was important to get the classification right.

Treatment of livestock epidemics

Background

- 36 Livestock epidemics are not explicitly covered in the draft of SNA Rev. 1. The assumption could be that these are catastrophic losses. Paragraph 12.61 of the draft of SNA Rev. 1 discusses exceptional losses and reads as follows:

12.61 Exceptional losses from fire damage, from robberies, from insect infestation of grain stores, etc., should be recorded here. In this context, exceptional losses indicate that the losses are not only large in value but also irregular in occurrence. Even very large losses, if they occur regularly, should be taken into account when calculating the change in inventories calculated for entry in the capital account as explained in chapter 10.

Question 2

- 37 Should losses due to agricultural epidemics be treated as exceptional losses? Moreover, should paragraph 12.61 be revised so as to include agricultural epidemics as a new kind of exceptional loss?

Answer

- 38 The AEG agreed that paragraph 12.61 [above], could be revised to include losses due to livestock epidemics.

Chapter 13: the balance sheet

Documents and background

- 39 The documents for the discussion on this chapter were *Substantive Comments on the Draft Chapter 13: The balance sheet* (SNA/M1.07/09), *Note on Reinvested Earnings and Own*

Funds (SNA/M1.07/09.Add.1) and *Consolidated comments of the world-wide review on draft chapter 13*, which are available at:
<http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5chapter13.pdf> and
<http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5chapter13add.pdf> and
<http://unstats.un.org/unsd/nationalaccount/AEG/papers/ctemplate13.pdf> respectively.

- 40 There were substantive questions on this chapter concerning own funds, retained earnings, valuation of unlisted shares, other equity and volume measures of balance sheet entries.

Own funds

Background

- 41 The term “own funds” appeared in fifteen paragraphs of the 1993 SNA, but it was not formally defined. Paragraphs 13.95 and 13.96 of the draft of SNA Rev. 1 describe “own funds” and different ways in which they can be derived in a business’ balance sheets. Paragraph 13.95 states that “the difference between the net worth of a corporation defined as the sum of its assets less the sum of its liabilities and the value of the share-holders’ equities may be referred to as own funds” but this has not been set out as a formal definition.

Question 1.b

- 42 Does the AEG agree that a definition of own funds should be included in the 1993SNA rev 1?

Answer

- 43 The AEG agreed that Chapter 13 will define own funds as

- total assets less total liabilities (excluding equity).

Equivalently, own funds could be defined as:

- net worth plus equity.

- 44 Elsewhere, a description of own funds derived as the sum of a number of detailed components will be given to facilitate links to other accounting approaches.

Question 1.c

- 45 Does the AEG agree that, for the analysis of corporations, the SNA recommends using the concept of own funds?

Answer

- 46 The AEG agreed that the concept of own funds is a useful tool for analysts and may be preferred in some circumstances.

Retained earnings

Background

- 47 Paragraph 13.95 of the draft of SNA Rev. 1 introduces the concept of “retained earnings” into the System, defining this item as “..... the amount of a corporation’s income available for distribution as dividends that is not so distributed”.

Question 1.d

- 48 Does the AEG wish to include the concept of retained earnings in the SNA?

Answer

- 49 The AEG agreed to use the term “retained earnings” to describe the concept of “distributable earnings less distributed earnings”. In the context of corporations, retained earnings is equal to net saving.

Valuing unlisted shares

Background

- 50 The Task Force on the Valuation of Equity proposed four alternative methods to value unlisted shares:

- Market capitalisation method;
- Net asset value;
- Present value;
- Own funds at book value.

- 51 BPM6, however, lists six possible ways of valuing unlisted shares

7.16. When actual market values are not available, an estimate is required. Alternative methods of approximating market value include:

(a) Recent transaction price. Unlisted instruments may trade from time to time, and recent prices, within the past year, at which they were traded may be used. Recent prices are a good indicator of current market values to the extent that conditions are unchanged. This method can be used as long as there has been no material change in the corporation’s position since the transaction date. Recent transaction prices become increasingly misleading as time passes and conditions change.

(b) Apportioning global value. The current market value of the global enterprise group should be based on its market price on the exchange on which its equity is traded, and the apportionment of this value to each economic territory in which it has establishments can be estimated on the basis of an appropriate indicator (e.g., sales, net income, assets, or employment).

(c) Present value / price to earnings ratios. The present value of unlisted equity can be estimated by discounting the forecast future profits. At its simplest, this method can be approximated by applying a market or industry price-to-earnings ratio to the (smoothed) recent past earnings of the unlisted enterprise to calculate a price. This method is most appropriate where there is a paucity of balance sheet information but earnings data are more readily available.

(d) Net asset value. Appraisals of untraded equity may be conducted by knowledgeable management or directors of the enterprise, and/or provided by independent auditors to obtain total assets at current value less total liabilities (excluding equity) at market value. Valuations should be recent (within the past year) and should cover intangible assets.

(e) Own funds at book value. This method for valuing equity uses the value of the enterprise recorded in the books of the direct investment enterprise, as the sum of (i) paid-up capital (excluding own shares and including share premium accounts); (ii) all types of reserves (including investment grants when accounting guidelines consider them company reserves); and (iii) cumulative undistributed profits net of losses, including results for the current year (including cumulative reinvested earnings). The greater the extent to which underlying data are based on International Accounting Standards, or similar standards such as US Generally Accepted Accounting Principles, the closer the approximation of market values; according to these accounting standards, most assets need to be revalued on, at least, an annual basis.

(f) Values reported by enterprises with macro-level adjustments by the statistical compiler. For untraded equity, information at historic cost or book value can be collected from enterprises, then adjusted with ratios based on suitable price indicators, such as prices of listed shares in the same economy with similar operations or on prices of selected assets.

Question 1.a

- 52 Should all four approaches be given as possible options? Alternatively, as in the current draft, should the draft of SNA Rev. 1 list the first three approaches and, if none of the three can be used, then base the valuation on the fourth (i.e. own funds at book value).

Answer

- 53 The AEG agreed that the text on the value of unlisted shares should be harmonised to the fullest extent possible with what is in BPM6. In practice, this will mean listing the six alternative approaches there and setting out the benefits and the drawbacks associated with each of them.

Other equity

Background

- 54 Paragraph 13.80 of the draft of SNA Rev. 1 describes “other equity” as “..... equity in any corporation or quasi-corporation that does not issue shares”. It goes on to say that “Other equity should be valued as equal to the value of the quasi-corporations’ assets less the value of their liabilities”. There is no reference to the counterpart of reinvested earnings, nor to the financial assets that non-resident units, in their capacity as owners of land and buildings in the economic territory, have against notional resident units.

Question 2

- 55 Does the AEG agree to modify the description of “Other equity”, by mentioning the counterpart of reinvested earnings, and the counterpart of foreign owned-dwellings?

Answer

- 56 The AEG agreed that the counterpart of reinvested earnings appears in the financial account but is not separately identified in the balance sheet.

- 57 The AEG agreed that “other equity” also includes the equity of the resident unit owning real estate abroad.

Balance sheets - volumes

Background

- 58 The draft of SNA Rev. 1 text on balance sheets does not cover balance sheet entries expressed either as volumes (i.e. underlying quantities) or in real terms (i.e. their real purchasing power if liquidated).

Question 3

- 59 Does the AEG agree to add a section promoting balance sheets in volume and/or real terms? If yes, should it be in volume terms or in real terms?

Answer

- 60 The AEG agreed that the issue of balance sheet data in volume/real terms is important but it is outside the scope of the 44 issues under review. The AEG noted there are links to several parts of the revised text. Because of these and the importance of the question in its own right it should be put on the long-term research agenda.

Chapter 17: insurance, guarantees and pensions – general background

Documents and background

- 61 The documents for the discussion on this chapter were *Parts of Draft Chapter 17: Crosscutting and special issues* (SNA/M1.07/11.1), *Questions to the AEG on parts of Draft Chapter 17: Crosscutting and special issues* (SNA/M1.07/11.2) and *Comments by OECD on Draft Chapter 17* (SNA/M1.07/11.3), which are available at <http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5chapter17dv2part.pdf> and <http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5chapter17.pdf> and <http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5chapter17OECD.pdf> respectively.
- 62 Chapter 17 is a new chapter for the SNA. It is to include the details on insurance and financial services currently in annexes IV and V but with more details in both cases. The section on insurance will include details on the revised treatment agreed for non-life insurance, the implications for life insurance including for annuities. The working out of the proposed changes for the recording of pension provisions will also appear in this chapter and the consequences for the recording of social insurance benefits other than pensions. The agreed treatment of standardised guarantees, which resembles to insurance, will appear in this chapter. In addition the chapter will cover the treatment of contracts, leases and licences, a topic other items with repercussions throughout several chapters.
- 63 By the time of the AEG meeting, draft text was available on insurance, pensions and other social benefits and guarantees. These had been reviewed by the ISWGNA but not previously by the AEG. The editor had queries on some areas where the previous discussion had not led to conclusive recommendations.

- 64 The issue of the recording of pensions has been one of the more difficult issues to resolve for the update. A task force is operating under the auspices of Eurostat and the ECB to try to determine the practicalities of designing a supplementary table to contain information on all pension entitlements including those that cannot be recorded in the core accounts because of the difficulty of separating these entitlement from social security benefits in several European countries.
- 65 The discussion of those parts of chapter 17 presented to the AEG for comments are grouped as follows:
- a. Questions raised by the editor seeking clarification on recommendations for the treatment of insurance, social benefits other than pensions and the actuarial basis of defined benefit entitlements
 - b. Questions on the proposed text relating to pensions
 - c. A presentation of the supplementary table being developed by the Eurostat/ECB task force
 - d. A question on the proposed text on annuities,
 - e. A question on the proposed text for standardised guarantees

Chapter 17: (a) Editors requests for clarifications

- 66 The AEG meeting in February 2004 discussed non-life insurance but two points arose still requiring clarification. Other point arose in extending the revisions to non-life insurance to life insurance and the consequences of the changes in pensions to other social benefits.

Valuing non-life insurance

Background

- 67 In February 2004, three possible alternatives for valuing the output of non-life insurance were agreed. These were:
- Statistical approach (based on expectations);
 - Accounting approach (based on equalisation reserves);
 - Input approach (based on sum of costs plus normal profits),

But no guidance was given as when each might be appropriate. The editor has suggested text to clarify the choice to be made.

Question 1

- 68 Does the AEG agree with the proposed text explaining these options?

Answer

- 69 The AEG agreed that the approach set out in the proposed changes to paragraph 17.33 in document SNA/M1.07/11.2 is suitable.

Equalisation provisions

Background

- 70 The AEG recommendation is to use adjusted claims in place of claims incurred in the formula for the derivation of output of non-life insurance but to show actual claims in the secondary distribution of income account along with net premiums (calculated as in the 1993 SNA). When claims incurred are higher than adjusted claims, output (and operating surplus) will be higher than under the 1993 SNA formula but this increase will be offset by the excess of claims incurred over net premiums in the secondary distribution of income account, leaving savings unaffected. Similar off-setting adjustment will occur if adjusted claims exceed claims incurred.
- 71 The rationale for replacing claims incurred by adjusted claims is that the insurance corporation tries to match net premiums and claims over the long run and not just on a year by year basis. To this end it creates an equalisation provision that is augmented when claims incurred are low and is reduced when claims incurred are high. The question arises, therefore, of whether instead of treating all savings of the corporations as adding to own funds, whether that part matching the difference between claims incurred and adjusted claims should be allocated to insurance technical provisions in the financial account and only the residual part being treated as an addition to own funds.

Question 2

- 72 In the SNA, the value of adjusted claims less actual claims goes into saving. Should this element of saving be assigned to reserves in the financial account?

Answer

- 73 No agreement was reached on this question. The AEG agreed the way forward would be to have a small group (François Lequiller, Robert Heath and one or two others) to work through the example in BPM6 and the 2004 AEG paper on this topic to ensure that the SNA is consistent with the BPM6 and that the AEG is still comfortable with the proposals set out in paper SNA/M1.04/10 presented to the 2004 meeting.

Declared bonuses

Background

- 74 Under a life insurance policy, bonuses may be declared that give the policy holders that undisputed right to the amounts declared. (The insurance corporations cannot repossess these amounts). Even though much of the value of the bonuses may be financed by holding gains, the bonuses seem to satisfy the conditions of representing property income agreed under the e-discussion on this topic.

Question 3

75 Should these declared bonuses be recorded as property income?

Answer

76 The AEG agreed these bonuses should be recorded as property income.

Social insurance benefits other than pensions

Background

77 Although the issue of the appropriate recording of pensions has been the subject of much discussion, the question of how to record social benefits other than pensions has not so far been subject to consideration. The draft text for the 1993 SNA Rev.1 suggests leaving the treatment as in the 1993 SNA but some loose ends remain to be tied up.

Question 4

78 What is the correct way of recording social insurance benefits other than pensions?

Question 5.1

79 Where should the reserves for social insurance benefits provided by funded schemes be recorded in the accounts?

Question 5.2

80 Should the System systematically separate social contributions and benefits into those relating to pensions and those relating to other benefits?

Answers (to questions 4, 5.1 and 5.2)

81 The AEG noted that a distinction should be made between social benefits payable in the future for which the employer must make provision and benefits payable in the current period. For private schemes, the long-term benefits should be treated in the same manner as pensions and, where liabilities are established, these must be shown. Current benefits will continue to be shown as in the 1993 SNA with the distinction between those that are funded and those that are unfunded.

82 In practice, it is probable that the reserves for current funded benefits may be negligible.

83 The AEG agreed that, for government schemes, the 1993 SNA method of recording social insurance benefits other than pensions should be maintained.

Defined contribution pension schemes

Background

84 Paragraph 17.12 of the draft of SNA Rev. 1 defines a social insurance scheme as one “..... where the policyholder is obliged or encouraged to insure against certain contingencies by the intervention of a third party”. It provides several examples:

- government may oblige all employees to participate in a social security scheme;
- employers may make it a condition of employment that employees participate in an insurance scheme specified by the employer;
- an employer may encourage employees to join a scheme by making contributions on behalf of the employee; or
- a trade union may arrange advantageous insurance cover available only to the members of the trade union.

85 Contributions to social insurance schemes are usually paid by, or on behalf of employees, though under certain conditions non-employed or self-employed persons may also be covered.

86 Although it is not a condition to be classified as a social insurance scheme, many such schemes do involve a pooling of risks between the participants of a scheme. The collective nature of such a scheme is implied by the use of the term “social”. For defined contribution schemes, however, there is generally no pooling of risk between participants; each participant’s benefits are defined exclusively in terms of the contributions made on that participant’s behalf and the associated increase in value from investment.

Question

87 A question arises about whether defined contribution pension schemes should continue to be classified as social insurance schemes as in the current SNA. This cannot be addressed in this update. Should this issue be put on the research agenda?

Answer

88 The AEG agreed to put the treatment of defined contribution pension schemes as social insurance schemes on the research agenda.

Question 6.1

89 How are the transactions between the scheme, the sponsor and the beneficiary recorded in such a way that the difference between both property income and holding gains earned by the scheme and the increase in liabilities to the beneficiaries due to past service are shown as liabilities between the scheme and the sponsor?

Answer

- 90 Property income equal to the increase in entitlements due to employees for past service is payable from the scheme to the beneficiary. At the same time, property income is earned by the scheme and holding gains accrue to the scheme. Any excess between the property income payable by the scheme and property income earned and holding gains accruing is a liability due to the scheme from the sponsor. The AEG noted a variation is needed when under or over funding is not the responsibility of the sponsor.

Difference between PBO and ABO bases of recording

Background

- 91 Many defined benefit pension schemes use a formula to set benefits that involves either the final salary or average salary as a key determinant. This implies that any promotion means an increase in the total pension entitlements. Accountants use two actuarial methods to determine the value of pension obligations:

- The accrued benefit obligation (ABO) records only the benefits actually accrued to date. It represents the amount the employee could walk away with if he left the firm tomorrow.
- The projected benefit obligation (PBO) is a more prudent measure of what the eventual level of entitlement is likely to be. For an individual, the PBO makes assumptions about how many future promotions a person is likely to receive and calculates his final salary accordingly. It then attributes the final benefit evenly across the period of the person's service

- 92 Where an individual's ABO increases in steps as he is promoted, the PBO increases more steadily over time. For the individual, PBO is always higher than ABO until the moment of retirement when the ABO catches up with the PBO. For a cohort of employees, the increase in ABO entitlements is smoother than for the individual but the total will always be lower than the PBO equivalent.

Question 6.2

- 93 If the liabilities are recorded on an ABO basis, how are the effects of promotions recorded?

Answer

- 94 The AEG agreed this effect should be recorded as a volume rather than a revaluation change.

Question 6.3

- 95 Should the difference between the PBO- and ABO-based estimates be treated as a provision employers make to handle the effects of promotions on the levels of reserves required?

Answer

- 96 The AEG considered that, when using PBO rather than ABO, both the current service entitlement and the past service entitlement will be higher and there will be no difference to

account for. The effects of major labour force restructures on PBO-based estimates should be treated as “other changes in volume”.

Chapter 17: (b) questions arising from the existing draft text

97 The draft text presented to the AEG meeting was incomplete pending the completion of work by the Eurostat/ECB task force. Much of the difficulty on the measurement of schemes for government employees stems from the fact that they may be constituted as part of social security in some countries. Two further questions were asked bearing on the use of the expression “social security” which has different connotations in different countries. (See also discussion on chapter 8 below.) Another question related to the treatment of the transfer of pension obligations between institutions and one to the classification to be attributed to the responsibility for under- or over-funding of defined benefit schemes,

Classifying pension systems

Background

98 In an attempt to side-step the difficulties of the use of social security and social assistance in different ways in different countries, paragraphs 17.91 to 17.95 of the draft avoids these terms by describing two types of pension systems as:

- Universal pensions provision
- Employment related pensions.

Question 1

99 The AEG was asked to consider the usefulness of presenting three categories of pensions instead of the above classification:

- Social security pension schemes
- Other employment related schemes
- Social assistance schemes.

Answer

100 The AEG agreed that the three separate categories of pensions should be presented in Chapter 17 of the draft of SNA Rev. 1, as outlined above, but that the second category should be titled “Employment-related schemes other than social security”.

Supplementary table on pension liabilities

Background

101 See the next section for background on the status of the proposed supplementary table on pension liabilities.

Question 2

- 102 Does the AEG agree that the principles governing the supplementary table should be introduced in a prominent position in the chapter?

Answer

- 103 Discussion postponed until discussion of the supplementary table (see next section).

Transfer of pension obligations

Background

- 104 At the meeting in Frankfurt in 2006, the AEG recommended that “..... when the obligation to pay pensions passes from one unit to another, this should be recorded as a transaction in pension liabilities even if neither unit has previously recorded them”.

Question 3

- 105 Does the AEG agree that this principle should be included in Chapter 17 or, alternatively, a reference is made in Chapter 17 to relevant paragraphs of the future Chapter 21 [on the government sector]?

Answer

- 106 The AEG agreed that a change in responsibility for pension liabilities should be recorded but not necessarily only as a transaction.

Recording pension liabilities

Background

- 107 In some countries, the social security administration is responsible for several types of pension schemes, including independent, defined contribution schemes or funded, defined benefits schemes. At the 2006 meeting, the AEG discussed whether, in such cases, the System should record the pension liability in the same way as privately-managed pension schemes.

Question 4

- 108 Does the AEG agree that pension liabilities should be recorded for a scheme “where the level of benefits is related to contributions”, even though the scheme may be described as part of a social security scheme?

Answer

- 109 The AEG agreed with the principle that pension schemes maintained by social security units that are not social security schemes should be treated the same as other pension schemes.

Classifying pension liabilities

Background

110 In many cases, any under-funding of a pension scheme is a liability of the sponsor (typically the employer) towards the scheme, and vice versa for over-funding. This needs to be shown as a transaction in a financial asset between the sponsor and the pension fund to ensure that the net saving of the pension is zero.

Question 5

111 Given that the liability from the pension scheme to the sponsor should be recorded, should it be classified as part of “Insurance, guarantees and pension schemes” rather than in “Other accounts receivable/payable”?

Answer

112 The AEG agreed to record the liability from the sponsor to the pension fund (or vice versa) and to classify it in a subcategory of pension types under “Insurance, guarantees and pensions” rather than in “Other accounts receivable payable”?

Chapter 17: (c) Supplementary table on pension liabilities proposed by the Eurostat/ ECB task force

Documents and background

113 The documents for the discussion on this topic were Supplementary Tables for Pension Schemes in Social Insurance and Explanatory Note by the ECB/Eurostat Task Force on Pension Schemes in Social Insurance, which are available at: <http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5sTablesPensions.pdf> and <http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5TFpensions.pdf> respectively.

114 The 2007 UNSC agreed that all non-government pension liabilities should be recorded in the core accounts. In addition some flexibility would be allowed as to whether all pension entitlements provided by general government to their own and other employees should be presented in the core accounts or only in a supplementary table. Such a supplementary table would be part of the System and should be accompanied by explanations about the reasons for excluding some scheme from the core accounts.

115 This table is to be compiled by all countries as part of the standard tables of the national accounts. A draft table is under preparation by the Eurostat/ECB Task Force on pensions. The current state of the draft was presented to the AEG for information and comment. Broadly speaking, the table presents:

- opening and closing stocks of pension entitlements for all social insurance pension schemes (including social security);
- transactions and other economic flows for each type of scheme during each period.

Question

- 116 The supplementary table on pensions is to be a key feature of the draft of SNA Rev. 1. The table is under discussion in a joint Eurostat/ECB Task Force. The AEG was asked for comments on the proposed table.

Answer

- 117 The AEG offered suggestions on the degree of detail to be shown in both the rows and columns of the table. The presenter undertook to transmit these comments to the Task Force and to provide feedback to the AEG.

Chapter 17: (c) Annuities

Background

- 118 Paragraph 17.68 of the draft of SNA Rev. 1 describes the key difference between a life insurance policy and an annuity.

17.68 The simplest case of a life insurance policy is one where a stream of payments is made by the policy holder to the insurance corporation over time in return for a single payment received as a claim at some point in the future. With the simplest form of annuity, the equivalent to the policy holder, called the annuitant, pays a single lump sum to the insurance corporation and in return receives a stream of payments either for a nominated period or for the rest of the annuitant's life (or possibly for the rest of the life of both the annuitant and a nominated other person).

- 119 Paragraphs 17.69 to 17.74 go on to describe the types of assets and flows associated with recording annuities in the System.

Question

- 120 The AEG was asked if members agreed with the text.

Answer

- 121 The AEG agreed that annuities function as savings schemes with a decline in value each year. At any point their capital value represents the present value of future payments. In the simplest case, the unwinding of the discount is shown as property income and the remaining fall in value as a financial transaction. In addition, fees charged by the insurance companies are included in property income received by annuitants and paid back by the annuitants as consumption expenditure in the use of income account.

Chapter 17: (e) Standardised guarantees

Background

- 122 The draft of chapter 17 contains a description of the treatment of standardised guarantees. The AEG was asked if they had any comments on the draft.
- 123 The AEG noted that the draft of SNA Rev. 1 needs to be harmonised with the BPM6 and that the claims payable by the guarantor on the defaulting credit should be recorded as received by the debtor or the creditor depending on the actual effective flows.

Chapters 9, 14 and 26

Documents and background

- 124 The documents for the discussion on chapter 9 were *Substantive Comments on the Draft Chapter 9: The use of income account* (SNA/M1.07/05) and *Consolidated comments of the world-wide review on draft chapter 9*, which are available at: <http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5chapter9.pdf> and <http://unstats.un.org/unsd/nationalaccount/AEG/papers/ctemplate9.pdf> respectively.
- 125 The documents for the discussion on chapter 14 were *Substantive Comments on the Draft Chapter 14: Summarising and presenting the accounts* (SNA/M1.07/10) and *Consolidated comments of the world-wide review on draft chapter 14*, which are available at: <http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5chapter14.pdf> and <http://unstats.un.org/unsd/nationalaccount/AEG/papers/ctemplate14.pdf> respectively.
- 126 The documents for the discussion on chapter 26 were *Substantive Comments on the Draft Chapter 26: Links to monetary and financial statistics* (SNA/M1.07/12) and *Consolidated comments of the world-wide review on draft chapter 26*, which are available at: <http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5chapter26.pdf> and <http://unstats.un.org/unsd/nationalaccount/AEG/papers/ctemplate26.pdf> respectively.
- 127 Chapters 9, 14 and 26 had been posted on the web site for the standard sixty day period for comment but although there were a number of comments posted, which will be considered, none of these was substantive enough to bring to the AEG. The chapters concerned are:
- Chapter 9: The use of income accounts
- Chapter 14; Summarising and presenting the accounts
- Chapter 26: The link to financial and monetary statistics.
- 128 The AEG noted that there were many editorial points but no substantive questions for the AEG.

Chapter 6: The production account

Documents and background

- 129 The documents for the discussion on this chapter were *Substantive Comments on the Draft Chapter 6: The production account* (SNA/M1.07/02), *Substantive Comments on the Draft Chapter 6 – Response by the Editor* (SNA/M1.07/02.Add.1), and *Consolidated comments of the world-wide review on draft chapter 6*, which are available at: <http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5chapter6.pdf> and <http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5chapter6add.pdf> and <http://unstats.un.org/unsd/nationalaccount/AEG/papers/ctemplate6.pdf> respectively.
- 130 Two of the most significant changes in chapter 6 concern the definition and coverage of services and the treatment of flows within establishments and within enterprises. The first arises from the extended consideration of financial services and the latter from the extension of the goods for processing treatment to apply within the domestic economy as well as between resident and non-resident units. In addition there was a question on the reference rate to be used in calculating financial services.

Definition of services

Background

- 131 Paragraph 6.12 in the draft of the draft of SNA Rev. 1 covers the issue of units classified to manufacturing also producing services. In part, it states that “.....when goods despatched to another unit for processing do not change ownership, the work done on them constitutes a service.....”.

Question 1.a

- 132 The AEG was asked whether it is necessary to have this new definition of services, based on the ownership of the good.

Answer

- 133 The AEG concluded that paragraph 6.12 should be interpreted only in the context of “goods for processing”; it does not constitute a change in the definition of a service. The criterion of “change of ownership” is not relevant to the provision of a service (see also Question 2.b).

Categories of services

Background

- 134 Paragraph 6.17 of the draft of SNA Rev. 1 defines services as follows: “

Services are the result of a production activity that changes the condition of the consuming units, or facilitates the exchange of products or financial assets.

- 135 It then goes on to elaborate different kinds of services using a distinction between transformation services, margin services and knowledge-capturing products.

Question 1.b

- 136 The Editor has introduced three categories of services in the draft of the draft of SNA Rev. 1. Should these categories be included in the SNA? If so, is the current terminology acceptable?

Answer

- 137 The AEG agreed these categories are useful as elaborations but should not appear as a formal classification of services. Given they are descriptive, they should not be set out in bold.
- 138 The text in the 1993 SNA on transformation services is satisfactory as currently written and there is no need for a new term to be added.

Knowledge-capturing products

Background

- 139 Paragraph 6.22 of the draft of SNA Rev. 1 sets out the types of activities covered by the knowledge-capturing products' category of services. Broadly, they "..... concern the provision, storage, communication and dissemination of information, advice and entertainment in such a way that the consuming unit can access the knowledge repeatedly".

Question 1.c

- 140 Paragraphs 6.28 to 6.31 of the 1993 SNA explain that the household production of most services is excluded from the production boundary. With the introduction of the concept of knowledge-capturing products, should it be made clear that these are excluded from the production boundary?

Answer

- 141 The CPC does not distinguish between goods and services because of the problems in defining the boundary. The AEG agreed that, in the absence of an internationally agreed definition of knowledge-based services, the draft of SNA Rev. 1 should make clear that "by convention, knowledge-capturing products produced for use within the household are outside the production boundary".

Intra-establishment flows

Background

- 142 As part of the e—discussion on the distinction between market and non-market production, it had been agreed that the third category should be referred to as production for own use without specifying that this has to be for own final use. Accepting this recommendation, paragraph 6.115 of the draft of SNA Rev. 1 states that it may be desirable to record an output for a good or service used as intermediate consumption within the same establishment.

Question 2.a

- 143 Does the AEG agree to the new model proposed for intra-establishment flows?

Answer

- 144 The AEG agreed to discuss this issue later in the meeting after taking account of a note [reminding the AEG of the e-discussion on market, non-market, was] circulated.

Intra-enterprise flows

Background

- 145 When the AEG accepted the recommendation that goods sent for processing abroad should be recorded on a strict change of ownership basis, it was also recommended that the same principle should apply to goods sent to another unit in the domestic economy should apply. The carry over is not straightforward, as a unit abroad, even if it is an establishment treated as a notional unit, is deemed capable of taking legal ownership of products. For establishments of the same enterprise within the same economy, a distinction according to change of legal ownership cannot be made. The editor had therefore developed criteria whereby a change of economic ownership could be assumed and applied the goods for processing approach on this basis. In particular, new paragraphs 6.95(d) and 6.100 regarding intra-enterprise flows contain a proposal that intra-enterprise deliveries should be recorded only when there is a change in economic ownership..

Question 2.b

- 146 Does the AEG agree that these paragraphs should be amended to avoid introducing any change to the 1993 SNA based on this criterion?

Answer

- 147 The AEG acknowledged that the paragraphs were intended to be consistent with the AEG decision on goods for processing but that this has been misinterpreted. The AEG agreed that the relevant paragraph(s) should be redrafted by the Editor to set out the principle, but avoid using the term “change of ownership”.

Reference rate for FISIM

Background

- 148 At the Frankfurt meeting in 2006, the AEG recommended that the reference rate to be used for FISIM should be a risk-free rate that has no service element in it and which reflects the maturity structure of the loans and deposits to which FISIM applies. It was understood that this gave more freedom than necessarily using the inter-bank rate. Following that meeting, in the context of ageing the classification structure for financial assets, it was agreed to include a category of inter-bank deposits. One reason for this was to ensure these flows between banks did not affect the calculation of FISIM. The draft text suggests that using the inter-bank rate would in general eliminate FISIM between banks

Question 2.c

- 149 Does the AEG agree that the text on the reference rate should not refer to the inter-bank rate?

Answer

150 The AEG affirmed the decision made at its meeting in Frankfurt.

Chapter 7: the distribution of income accounts

Documents and background

151 The documents for the discussion on this chapter were *Substantive Comments on the Draft Chapter 7: The distribution of income accounts* (SNA/M1.07/03), *Editor's Response to Comments on Interest* (SNA/M1.07/03.Add.1), and *Consolidated comments of the world-wide review on draft chapter 7* which are available at: <http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5chapter7.pdf> and <http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5chapter7add.pdf> and <http://unstats.un.org/unsd/nationalaccount/AEG/papers/ctemplate7.pdf> respectively.

152 Two questions were raised about the classification hierarchy used within the chapter, one about taxes unlikely to be collected and one on the recording of interest.

Investment income

Background

153 The draft of SNA Rev. 1 introduces the concept of investment income, equivalent to property income less rent, for harmonisation with the BPM6 where rent is never payable between countries and the remaining property income which is payable across countries is termed investment income.

Question 1

154 The Editor has proposed to introduce a heading "Investment income" under "Property income" to facilitate consistency with the BPM. Do AEG members think that this is appropriate for the SNA?

Answer

155 The AEG agreed that investment income does not need to appear in the formal classification hierarchy but may be used in the text, to remain consistent with BPM6.

Social contributions

Background

156 Paragraph 7.37 of the draft of SNA Rev. 1 suggests that compensation of employees can be split into two components, the second of which is itemised as follows:

- (b) Social insurance contributions payable by employers, which may be further divided into:
 - i. contributions to social security schemes;

- ii. actual social contributions to employment-related social insurance schemes; and
- iii. imputed social contributions to employment-related social insurance schemes.

Question 2

157 Is it appropriate to create a new entry for social security, under compensation of employees, or are the entries in the 1993 SNA: “Actual social contributions” and “Imputed social contributions” sufficient?

Answer

158 The AEG agreed that the sub numbering (i.e. (i), (ii) and (iii)) be removed from paragraph 7.37.

Taxes unlikely to be collected

Background

159 Paragraph 7.76 of the draft of SNA Rev. 1, which covers the treatment of taxes unlikely to be collected, is unchanged from the 1993 SNA. It creates an impression that this is an exceptional problem but it is something that is common to virtually all countries.

Question 3

160 Should more emphasis be given to the treatment of taxes unlikely to be collected?

Answer

161 Consistent with its earlier decision, the AEG agreed that no change should be made to the 1993 SNA on this point.

Recording of interest on different financial instruments

Background

162 Paragraphs 7.94 to 7.111 of the 1993 SNA, explaining the recording of interest on various financial instruments, have been removed from the draft chapter 7.

Question 4

163 Should chapter 7 contain a description of the recording of accrued interest by various financial instruments as in the 1993 SNA?

Answer

164 The AEG was told that the treatment of interest would be elaborated as part of a more extensive discussion on financial services in chapter 17, with a shorter version in chapter 7.

Chapter 8: The redistribution of income accounts

Documents and background

- 165 The documents for the discussion on this chapter were *Substantive Comments on the Draft Chapter 8: The redistribution of income accounts* (SNA/M1.07/04), *Substantive Comments on the Draft Chapter 8- Decision tree to allocate social transfers* (SNA/M1.07/04.Add.1), and *Consolidated comments of the world-wide review on draft chapter 8*, which are available at: <http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5chapter8.pdf> and <http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5chapter8add.pdf> and <http://unstats.un.org/unsd/nationalaccount/AEG/papers/ctemplate8.pdf> respectively.
- 166 A great many of the questions arising on this chapter revolved around expressions including the word “social”, such as social insurance schemes, social security and social assistance. These expressions are widely used in countries with definitions particular to each country. For use in the SNA, these terms have to be precisely defined in such a way that consistent coverage is obtained across countries even at the cost of using a term in a somewhat different sense than is used nationally. Half of the substantive comments on the chapter involved clarification of terms involving the word “social”. Other topics concerned non-collection of social security contributions and a group of taxes related to owner-occupiers as well as two items that were covered in the discussion on chapter 17.

Distinguishing between social insurance, social security and social assistance

Background

- 167 Both social security and social assistance provide social benefits to households but social assistance is excluded from social insurance schemes where social security is included. The delineation between social security and social assistance affects the classification of social benefits and entries in the proposed supplementary table on pensions. However, the term “social security” is often used in countries to encompass benefits that the SNA would classify as social assistance benefits. Chapter 8 includes a description of social insurance schemes but there is nothing upfront that explicitly sets out the difference between social security and social assistance.

Question 1.a

- 168 Does the AEG agree that a clear definition should be given in paragraph 8.59 of the difference between social insurance and social assistance?

Answer

- 169 Discussion on this issue was postponed so that AEG members would have the opportunity to reflect on the usefulness of a proposed decision-tree diagram set up to assist in making such a distinction.

Defining social insurance

Background

170 Paragraph 8.59 of the draft, describing social insurance schemes, corresponds to paragraph 8.55 of the 1993 SNA. However, a more extensive definition is given in paragraphs 8.59 and 8.60 and annex IV paragraph 5 of the 1993 SNA (and incorporated in paragraphs 8.63 and 8.64 as well as chapter 17 of the draft). This states that the benefits are conditional in participation in the scheme and at least one of the three following conditions is met:

- (a) participation in the scheme is obligatory either by law or by the conditions of employment;
- (b) the scheme is operated for the benefit on behalf of a group and restricted to group members, or
- (c) an employer makes a contribution to the scheme on behalf of an employee.

However the draft shows the earlier, short description in bold as the definition of social insurance schemes.

Question 1.b

171 Does the AEG confirm the [longer] definition of social insurance set out in the 1993 SNA?

Answer

172 The AEG confirmed that the 1993 SNA definition should still stand.

Distinguishing between social insurance and social assistance

Background

173 Paragraph 8.67(a) of the draft of SNA Rev. 1 adds the following sentence in relation to social security schemes: “Benefits under these schemes are often not related to levels of salary of the beneficiary or history of employment.”. This was intended to draw a distinction between social security schemes where the benefits are proportional to contributions and those which may depend on contributions but are not proportional to them. It was felt the wording could be interpreted as proposing a change to the definition of social insurance by including some benefits that are payable without prior contributions that should be classified in the SNA as social assistance benefits and thus not part of social insurance.

Question 1.c

174 Does the AEG agree that the definition of social assistance (as distinct from social insurance) should be based on the notion of “non-participatory schemes”?

Answer

175 The AEG considered that social assistance is provided under various programs but that there is no social assistance scheme as such that should be set out in the SNA.

Question 1.d

176 The redrafted SNA contains a slight change in the wording related to social security schemes [the sentence quoted above]. Can this proposed wording be changed back to that used in the 1993 SNA?

Answer

177 The AEG agreed.

Question 1.e

178 This was a question on the categorisation of social insurance schemes and was discussed under Chapter 17 section (b) above.

Social security units

Background

179 The building blocks of the SNA are institutional units, but reference is regularly made to “social security funds” rather than “social security units”.

Question 1.f

180 Does the AEG agree to use the term “social security units” rather than “social security funds”?

Answer

181 The term “social security funds” is preferred for consistency with the terms used in sub-sectoring the general government sector.

Question 2

182 This concerned the attribution of the classification of the over- or under-funding of pension schemes and was discussed under Chapter 17 section (b) above

Social contributions that are unlikely to be collected

Background

183 Paragraph 8.54 of the draft of SNA Rev. 1 discusses what should be recorded in respect of taxes that are unlikely to be collected but this paragraph does not mention social contributions, which may be affected in a similar way (e.g. via bankruptcy).

Question 3

184 Does the AEG agree to add a sentence explaining that, if any social contribution remains recorded that is unlikely to be collected, then a corresponding capital transfer should be recorded?

Answer

- 185 This issue was settled in the discussion on question 3 in chapter 7 (i.e. “Consistent with its earlier decision, the AEG agreed that no change should be made to the 1993 SNA on this point”).

Taxes payable by owner-occupiers

Background

- 186 Paragraph 8.57 of the draft corresponds to paragraph 8.53 of the 1993 SNA. In it, current taxes on capital are described and a sub-heading on current taxes on land and buildings appears to include taxes payable by owner-occupiers that, in SNA terms, should be treated as taxes on production.

Question 4

- 187 Does the AEG agree that taxes on dwellings and land payable by owner-occupiers should be classified as “other taxes on production” rather than as “taxes on capital”?

Answer

- 188 The Editor informed the AEG that there is clearly an error in the current SNA. There should be a category of taxes on capital covering taxes on housing but excluding taxes paid by owner-occupiers in their capacity as owners. This text is linked to the classification of taxes by the GFSM and OECD revenue statistics. A proposal for changing the SNA is currently being prepared in consultation with those responsible for these two classifications.

Transfers of individual non-market services

Background

- 189 It is difficult to distinguish between items that should be classified to “Social assistance benefits in kind” and those under “Transfers of individual non-market services”.

Question 5

- 190 Does the AEG agree that “Transfers of individual non-market services” should be obtained as the residual between “Total individual non market goods and services” and “Social benefits in kind”?

Answer

- 191 The AEG considered this is a minor change and would be useful, so the AEG agreed.

Distinction between market and non-market production

- 192 This discussion was a follow-up to question 2a under discussion on chapter 6.

193 The 1993 SNA identifies three major types of production:

- market production
- production for own final use
- other non-market production.

As a result of an e-consultation, it had been agreed to change this to be

- Market production
 - Production for sale
 - Production for own use
- Non-market production

194 As result of reading the implications of this decision in the draft text, the AEG preferred to move back closer to the position of the 1993 SNA. It was therefore agreed that there should be three categories of production of equal status, rather than two with one sub-divided. Further the possibility to allow production for own intermediate use was to be removed. As a result the final classification will be:

- market production (covers products that are sold on the market)
- production for own final use (including owner-occupied housing and services provided by domestic staff)
- non-market production (covers only production by general government and non-profit institutions serving households).

Decision tree for allocating social transfers

195 The AEG agreed that the decision tree provided a useful means of working out how to distinguish between social insurance, social assistance and social transfers. The Project Manager suggested that AEG members should send comments to Anne Harrison by 6 April 2007 so she can update the decision tree, circulate an updated version, and explain why it is necessary to distinguish between funded and unfunded schemes for social benefits other than pensions.

196 The results of this consultation will be attached as Annex 1

Equalisation reserves for non-life insurance

197 A paper was circulated illustrating the outcome obtained using the proposed revised statistical treatment of measuring equalisation reserves for non-life insurance compared with

the outcome based on the 1993 SNA treatment. The AEG agreed the example was useful in understanding the implications of the proposed treatment. Anne Harrison and François Lequiller will circulate an updated version, including more detailed notes about the different stages involved in each of the examples.

198 The results of this discussion will be attached as Annex 2

Other substantive question raised by AEG members

199 The AEG considered questions about marketing assets and goodwill, freely-available R&D, and why the definition of assets was not set out in chapter 10.

200 The AEG affirmed its decision to exclude marketing assets and goodwill from the balance sheet unless evidenced by a transaction (the decision is in line with international accounting standards).

201 At its Frankfurt meeting, the AEG made a compromise decision on freely-available R&D, which potentially had implications for the definition of assets. In response to further consideration of this issue, it is agreed that R&D that has no benefit to its owner was not to be treated as capital formation but that R&D that provides a benefit to its owner and over which ownership rights are established should be considered as capital formation even if it made freely available to third parties. The definition of an asset is thus not affected by this decision.

202 The primary definition of an asset will be included in chapter 3 with a reprise in chapter 10.

203 A further question on the definition of capital transfers would be taken up after the meeting for lack of time and the results attached as Annex 3.

Implementation strategy

204 The documents for the discussion on this topic were Methodological Publications Planned by the ISWGNA and Timing of the Introduction of the Updated SNA and the Revised ISIC in the National Accounts of OECD Member Countries, which are available at: <http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5plannedManuals.pdf> and <http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5OECDImplementation.pdf> respectively.

205 The ISWGNA is committed to presenting a strategy on the implementation of the SNA Rev. 1 to the Statistical Commission in early 2008. In this content, the AEG considered presentations covering various aspects relating to the implementation. The discussion covered included the backup to be provided in terms of related manuals (such as the BPM6 and the European System of Accounts (ESA), which is to be updated in the coming years) and supporting information, such as handbooks, classifications and guidance on how to collect the data required to implement the draft of SNA Rev. 1. Some implementation timetables were also considered.

Question

206 Are the main elements of the implementation strategy adequately addressed?

Answer

207 The AEG agreed that the broadly-based implementation plans are a good starting point. Individual countries will need to spend some time looking at all the implications for them.

Question

208 What contributions could be made by AEG members in the formulation and execution of the implementation strategy?

Answer

209 The AEG agreed that sharing information and experiences would be very useful. The AEG suggested that the UNSD should set up a special section on its SNA website for countries to post documents/papers describing how particular problems in the contexts of their implementation plans will be tackled.

Immediate research needs

210 The Project Manager outlined several research projects that follow on from the UNSC's decision on the recommendations:

- develop an internationally acceptable method for bringing capitalisation of R&D into the accounts; and
- develop a sound method of assessing the rate of return on assets, particularly for countries that do not have capital stock estimates.

211 The Project Manager said that the ISWGNA has to consider how best to move forward. She emphasised that these issues are separate from the long-term research agenda, with the aim being to move forward quickly and report progress to the UNSC from time to time. Existing bodies, such as the Canberra II Group, could be very useful in progressing research in the next few years.

212 The AEG was told of the UNSC's decision to support the formation of a high-level group to examine long-term implications of SNA and possible future changes.

213 The AEG discussed the role of such a group and its own role in advancing national accounts.

The long-term research agenda

Documents and background

- 214 The document for the discussion on this topic was *Long-term Research Agenda: Paper on Operationalizing the Agenda* (SNA/M1.07/14), which is available at: <http://unstats.un.org/unsd/nationalaccount/AEG/papers/m5research.pdf>.
- 215 The ISWGNA had collected suggestions for items that should be investigated for incorporation in some future update or revision of the SNA. These were listed in a paper for consideration by the AEG together with a synopsis of what most items were intended to cover. The ensuing discussion considered the following questions:

Question 1

- 216 What topics should be on the long-term research agenda?

Question 2

- 217 Are there any topics that need to be added to the list?

Question 3

- 218 Should some topics be merged together?

Question 4

- 219 How to proceed with the development of the research agenda?

Answers

- 220 The AEG did not focus on specific topics, but discussed the list in general terms and the way forward. It was felt that there should be only a relatively short list of topics being considered at any one time, no more than three or four. The long-term research agenda is a living document and the ISWGNA should be able to add an important topic at any time. The ISWGNA would also be responsible for setting research priorities and a firm timeframe with clarity of goals to ensure that progress is made. The process used for the 44 issues of the SNA update worked fairly well (topics were grouped by theme and assigned to specialist groups that reported back to the AEG).
- 221 It will be important to set out the goals of the research agenda, such as when and how the ISWGNA proposes to incorporate any changes that arise from it? Some of the potential topics are marginal ones and the long-term research agenda should concentrate on the bigger questions not currently handled well by, or not included in, the SNA (suggestions included the presentation of flow of funds accounts, GDP and welfare, regional accounts and re-examining the definition of income).
- 222 The ISWGNA will need to liaise with the relevant City Groups in setting out its plans for the long-term research agenda.

The way forward

- 223 The Project Manager explained that the management group had proposed, and the UNSC had accepted, that the 1993SNA Rev.1 should be delivered in two stages. The first of these, deliverable for the 2008 UNSC, will cover the accounting conventions, the accounts and the integration of the accounts of the SNA. This will incorporate the recommendations adopted on the 44 issue and the 39 clarification items. The working assumption is that this will comprise chapters 1 to 17 of the proposed structure of the SNA, though some material in chapters 14 and 15 may be displaced to the second deliverable. The second deliverable, due for the UNSC in 2009 would consist of chapters 18 to 27 plus any material displaced from the first. A more final view of the demarcation would be formulated in the middle of 2007.
- 224 The indicative timetable for 2007 is the following. The Editor will first complete chapter 17 and then proceed to work on chapters 1 to 5, 15 and 16 with goal of completion by the end of June. The second half of the year will be the time to incorporate comments on all chapters to be included in the first deliverable. In parallel to the Editor's work, the AEG and others will need to comment on newly available draft chapters and the ISWGNA will prepare a summary of comments on the chapters so these can be reviewed and subsequently incorporated in the final draft as appropriate.
- 225 Given the extremely tight time available, it is unlikely that there will be a second AEG meeting in 2007. Instead, AEG input will be sought via e-consultations and possibly some informal get-togethers at the time of other meetings. It was emphasised again that great caution has to be exercised on making changes not covered by the 44 issues and 39 clarification items. In light of this, more guidance would be given on the type of comments that would be welcome and a request made to identify the paragraph number(s) to which comments relate.
- 226 The AEG agreed that the program is achievable but it will require a cooperative effort from everyone involved to ensure that the timetable is met and the final product is high quality. The responsibility and credit for success are a shared responsibility and successfully dovetailing the tasks over the rest of the year is crucial.

Agenda

Fifth Meeting of the Advisory Expert Group on National Accounts

19-23 March 2007

at the United Nations, New York

Monday, 19 March

9.30 – 12.30 Chair: ISWGNA, IMF

Opening of the meeting, Welcome statement by Mr Paul Cheung, Director, UNSD

Approval of the agenda

Document: SNA/M1.07/01

Report from the Project Manager: Progress and UN Statistical Commission

Presenter: Carol Carson (Project Manager)

Background paper: Progress Report by the Project Manager dated 25 February 2007

Background paper: Three Documents Related to the 38th UN Statistical Commission's Consideration of the Recommendations for the Update of the 1993 SNA

Substantive points about the chapters already drafted - Perspectives on drafting

Presenter: Anne Harrison (Editor)

Ground rules for discussion

Presenter: Carol Carson (Project Manager)

14.00 – 17.30 Chair: Carol Carson, Project Manager

Discussion on chapters, focusing on issues identified by ISWGNA from the substantive comments during world-wide review - Substantive comments on Chapter 10

Presenter: Christian Ravets (Eurostat)

Papers: SNA/M1.07/06; SNA/M1.07/06.Add.1

Discussion on chapters, focusing on issues identified by ISWGNA from the substantive comments during world-wide review - Substantive comments on Chapter 11

Presenter: Robert Heath (IMF)

Paper: SNA/M1.07/07

Tuesday, 20 March

9.30 – 12.30 Chair: Carol Carson, Project Manager

Discussion on chapters, focusing on issues identified by ISWGNA from the substantive comments during world-wide review - Substantive comments on Chapter 12

Presenter: Barbro Hexeberg (World Bank)

Paper: SNA/M1.07/08

Discussion on chapters, focusing on issues identified by ISWGNA from the substantive comments during world-wide review - Substantive comments on Chapter 13

Presenter: François Lequiller (OECD)

Papers: SNA/M1.07/09; SNA/M1.07/09.Add.1

14.00 – 17.30 Chair: Carol Carson, Project Manager

Discussion on chapters, focusing on issues identified by ISWGNA from the substantive comments during world-wide review - Substantive comments on Chapter 17

Presenters: Anne Harrison (OECD), François Lequiller (OECD), Reimund Mink (ECB)

Papers: SNA/M1.07/11.1; SNA/M1.07/11.2; SNA/M1.07/11.3

Background paper: Explanatory Note by the ECB/Eurostat Task Force on Pension Schemes in Social Insurance

Background Paper: Supplementary Tables for Pension Schemes in Social Insurance

Review of Monday's conclusions

Wednesday, 21 March

9.30 – 12.30 Chair: Carol Carson, Project Manager

Discussion on chapters, focusing on issues identified by ISWGNA from the substantive comments during world-wide review - Substantive comments on Chapter 17 (continued)

14.00 – 17.30 Chair: Carol Carson, Project Manager

Review of Tuesday's conclusions

Discussion on chapters, focusing on issues identified by ISWGNA from the substantive comments during world-wide review - Substantive comments on Chapter 9

Presenter: Viet Vu (UNSD)

Paper: SNA/M1.07/05

Discussion on chapters, focusing on issues identified by ISWGNA from the substantive comments during world-wide review - Substantive comments on Chapter 14

Presenter: Viet Vu (UNSD)

Paper: SNA/M1.07/10

Discussion on chapters, focusing on issues identified by ISWGNA from the substantive comments during world-wide review - Substantive comments on Chapter 26

Presenter: Kimberly Zieschang (IMF)

Paper: SNA/M1.07/12

Thursday, 22 March

9.30 – 12.30 Chair: Carol Carson, Project Manager

Discussion on chapters, focusing on issues identified by ISWGNA from the substantive comments during world-wide review - Substantive comments on Chapter 6

Presenter: François Lequiller (OECD)

Papers: SNA/M1.07/02; SNA/M1.07/02.Add.1

Discussion on chapters, focusing on issues identified by ISWGNA from the substantive comments during world-wide review - Substantive comments on Chapter 7

Presenter: Christian Ravets (Eurostat)

Papers: SNA/M1.07/03; SNA/M1.07/03.Add.1

14.00 – 17.30 Chair: Carol Carson, Project Manager

Discussion on chapters, focusing on issues identified by ISWGNA from the substantive comments during world-wide review - Substantive comments on Chapter 8

Presenter: François Lequiller (OECD)

Papers: SNA/M1.07/04; SNA/M1.07/04.Add.1

Review of Wednesday's conclusions

Other issues from the Editor's list and circle-back issues

Presenter: Anne Harrison (Editor)

Friday, 23 March

9.30 – 12.30 Chair: Carol Carson, Project Manager

Implementation - Provisional list of publications by ISWGNA members 2007 – 2012

Presenters: Ivo Havinga (UNSD), Adriaan Bloem (IMF)

Background Paper: Methodological Publications Planned by the ISWGNA

Implementation - Schedules (OECD paper from October 2006 meeting)

Presenter: François Lequiller (OECD)

Background Paper: Timing of the Introduction of the Draft of SNA Rev. 1 and the Revised ISIC in the National Accounts of OECD

Implementation - Country papers/presentations on implementation of the 1993 SNA Revision 1

Presenter: Peter Harper (Australia)

Research - Experimental estimates, satellite accounts, etc. that move toward implementation (e.g. on R&D)

Presenter: Carol Carson (Project Manager)

UNSC request for the formation of a high-level group on SNA

Presenter: Ivo Havinga (UNSD)

Long-term research agenda: Paper on operationalizing the agenda (UNECE)

Presenter: Tihomira Dimova (UNECE)

Paper: SNA/M1.07/14

14.00 – 17.30 Chair: Carol Carson, Project Manager

The Way Forward

Presenter: Carol Carson (Project Manager)

Review of Wednesday's conclusions

Wrap-up of the meeting

Close of meeting

List of papers

Agenda	SNA/M1.07/01
Substantive Comments on the Draft Chapter 6: The production account	SNA/M1.07/02
Substantive Comments on the Draft Chapter 6 - Response by the Editor	SNA/M1.07/02.Add.1
Substantive Comments on the Draft Chapter 7: The distribution of income accounts	SNA/M1.07/03
Editor's Response to Comments on Interest	SNA/M1.07/03.Add.1
Substantive Comments on the Draft Chapter 8: The redistribution of income accounts	SNA/M1.07/04
Substantive Comments on the Draft Chapter 8- Decision tree to allocate social transfers	SNA/M1.07/04.Add.1
Substantive Comments on the Draft Chapter 9: The use of income account	SNA/M1.07/05
Substantive Comments on the Draft Chapter 10: The capital account	SNA/M1.07/06
Substantive Comments on the Draft Chapter 10 - Addendum by the Editor	SNA/M1.07/06.Add.1
Substantive Comments on the Draft Chapter 11: The financial account	SNA/M1.07/07
Substantive Comments on the Draft Chapter 12: The other changes in assets account	SNA/M1.07/08
Substantive Comments on the Draft Chapter 13: The balance sheet	SNA/M1.07/09
Note on Reinvested Earnings and Own Funds	SNA/M1.07/09.Add.1
Substantive Comments on the Draft Chapter 14: Summarising and presenting the accounts	SNA/M1.07/10
Parts of Draft Chapter 17: Crosscutting and special issues	SNA/M1.07/11.1
Questions to the AEG on parts of Draft Chapter 17: Crosscutting and special issues	SNA/M1.07/11.2

Comments by OECD on Draft Chapter 17	SNA/M1.07/11.3
Substantive Comments on the Draft Chapter 26: Links to monetary and financial statistics	SNA/M1.07/12
Long-term Research Agenda: Paper on Operationalizing the Agenda	SNA/M1.07/14

Background papers

Progress Report of the Project Manager

Documents Related to the Thirty-eight Statistical Commission's Consideration of the Recommendations for the Update of the 1993 SNA

Explanatory Note by the ECB/Eurostat Task Force on Pension Schemes in Social Insurance

Supplementary Tables for Pension Schemes in Social Insurance

Timing of the Introduction of the Draft of SNA Rev. 1 and the Revised ISIC in the National Accounts of OECD Member Countries

Methodological Publications Planned by the ISWGNA

Consolidated comments of the world-wide review on draft chapter 6

Consolidated comments of the world-wide review on draft chapter 7

Consolidated comments of the world-wide review on draft chapter 8

Consolidated comments of the world-wide review on draft chapter 9

Consolidated comments of the world-wide review on draft chapter 10

Consolidated comments of the world-wide review on draft chapter 11

Consolidated comments of the world-wide review on draft chapter 12

Consolidated comments of the world-wide review on draft chapter 13

Consolidated comments of the world-wide review on draft chapter 14

Consolidated comments of the world-wide review on draft chapter 26

List of participants

Fifth Meeting of the Advisory Expert Group on National Accounts

19-23 March 2007

at the United Nations, New York

Mr Ole Berner
Denmark

Mr Meshesha Getahun
Ethiopia

Mr Omar Hakouz
Jordan

Mr Peter Harper
Australia

Mr Jan Heller
Czech Republic

Mrs Mariam Cover Jiminez
Costa Rica

Mr Andrey Kosarev
Russian Federation

Mr Akhilesh Kulshreshtha
India

Mr Robin Lynch
United Kingdom

Mr Jacques Magniez
France

Mr Reimund Mink
European Central Bank

Mr Brent Moulton
USA

Ms Chellam Palanyandy
Malaysia

Mr Peter Pariag
Trinidad and Tobago

Mr Johan Prinsloo
South Africa

Ms Irena TvariJonaviciute
Lithuania

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Eurostat

Mr Christian Ravets

Mr Anders Norden

International Monetary Fund

Mr Kim Zieschang

Mr Robert Heath

Mr Adriaan Bloem

Organisation for Economic Cooperation and Development

Mr François Lequiller

UN Economic Commission for Europe

Ms Tihomira Dimova

UN Statistics Division

Mr Ivo Havinga

Mr Herman Smith

Mr Viet Vu

Ms Annette Becker

Mr Gulab Singh

Ms Magdolna Csizmadia

World Bank

Ms Barbro Hexeberg

Apologies

Mr Roberto Ramos
Brazil

National accounts and related manuals

SNA: *System of National Accounts, 1993* by Commission of the European Communities/Eurostat, International Monetary Fund, Organisation for Economic Cooperation and Development, United Nations and World Bank

ISIC: *International Standard Industrial Classification of All Economic Activities, Revision 3.1*, United Nations, 2003

CPC: *Central Product Classifications, Version 1.1*, United Nations, 2003

NPI Handbook: *Handbook on Non-Profit Institutions in the System of National Accounts*, United Nations, 2003

SEEA-2003: *Integrated Environmental and Economic Accounting 2003*, by European Commission/Eurostat, International Monetary Fund, Organisation for Economic Cooperation and Development, United Nations and World Bank

BPM5: *Balance of Payments Manual Fifth Edition*, International Monetary Fund, 1993

BPM6: *Manual on Balance of Payments and International Investment Position*, Draft published on the International Monetary Fund web site, 2007

GFSM 2001: *Government Finance Statistics Manual 2001* by International Monetary Fund

MFSM 2000: *Monetary and Financial Statistics Manual*, International Monetary Fund

External Debt Guide: *External Debt Statistics: Guide for Compilers and Users*, International Monetary Fund, 2003

Acronyms

BoP	Balance of payments
BOPCOM	IMF's Balance of Payments Committee
BPM5	Balance of Payments Manual 1993 (fifth edition)
CPC	Central product classification
COICOP	Classification of individual consumption by purpose
COFOG	Classification of the functions of government
COFC	Consumption of fixed capital
CPI	Consumer Price Index
Eurostat	Statistical Office of the Commission of the European Communities
FISIM	Financial intermediation services indirectly measured
FRA	Forward rate agreement
GDP	Gross domestic product
GFCF	Gross fixed capital formation
GFS	Government Finance Statistics
GFSM2001	Manual of Government Finance Statistics (2001 edition)
GNI	Gross national income
GOS	Gross operating surplus
IMF	International Monetary Fund
I-O	Input-output
ISIC	International Standard Industrial Classification of All Economic Activities
MFP	Multifactor productivity
NDP	Net domestic product
NPI	Non-profit institution
NPISH	Non-profit institutions serving households
NPL	Non-performing loan
NPV	Net present value
OECD	Organisation for Economic Cooperation and Development
PIM	Perpetual inventory method
PPP	Public/private partnerships OR
PPP	Purchasing power parity
R&D	Research and development
SAM	Social accounting matrix
SDRs	Special drawing rights
SNA93	System of National Accounts (1993 edition)
S-U	Supply-use (tables)
UNSD	United Nations Statistical Division
VAT	Value added tax