SNA/M1.08/04.Add1

Sixth meeting of the Advisory Expert Group on National Accounts
12 – 14 November 2008, Washington D.C.

Classifications and codes of the draft SNA update

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Background document to AEG paper SNA/M1.08/04: Classification and coding structure of accounting entries

Classifications and codes of the draft SNA update

Reference: Annex 1 - Classification and coding structure of accounting entries - 22/02/2008

The purpose of this note is to discuss some of the changes that have been made in the classifications and codes of the SNA08, according to the above-mentioned annex that, however, is not part of volume 1.

It may be useful to recall that several countries have already implemented SNA93 for now 10 years, and that users, and compilers as well, from these countries have been accustomed to classifications and codes. For this reason, it is better not to change where there is no serious reason to do so, particularly in a process that is presented as an updating.

The present paper covers the following issues:

- Classification and codes of sectors
- Classification and codes of transactions in goods and services
- Classification and codes of transactions in non-produced assets
- Classification and codes of distributive transactions
- Classification and codes of financial transactions
- Classification and codes of other flows
- Classification and codes of non financial assets
- Supplementary tables (pensions table)

Classification and codes of sectors

Non-profit institutions

As a preliminary remark, it may be recalled that the systematic integration of NPIs in the sub-sectorisation process was never discussed. First, it is something that will be out of reach for most countries. Second, although there is an actual merit to try to identify more comprehensively the size and the role of NPIs within all the economy, it is irrelevant to introduce this distinction in the heart of the sectoring work, since many of the resulting sub-sectors will have no significance. For instance, there would be potentially 54 sub-groupings in the financial corporations sub-sector.

It would be better to recommend the identification and separation of NPIs in a complementary classification, where it would be possible to adopt a lighter sectorisation which, most of the time, will be more relevant for the purpose aimed at.

For the time being, this results in a strange, quite exotic, classification.

Furthermore, the introduction of NPIs sub-sectors lead to name “for-profit institutions” the units that, in the corporations sectors, are not NPIs. This is misleading. Lengthy texts have been indeed devoted to explaining that “NPI” is already an inadequate terminology since the specific feature of NPIS is not that they do not make profits, but that they do not distribute them. Therefore, this loose terminology is likely to be a source of confusion, including a confusion with the market/non market opposition.

General government

In the present draft SNA08 like in SNA93, there are two alternative methods of classification, which differ about the classification of social security. It is the 3rd digit of the codes that points out which method is used:

- in countries where sub-sectors are coded S.131xx, the first alternative is used: there are four sub-sectors, social security being a sub-sector at the same level in the classification as central, state and local governments;
- in countries where sub-sectors are coded S.132xx, the second alternative is used: there are three sub-sectors - central, state and local - social security being found at each level.

The codification that is proposed here seems to aim at merging the two codings, which leads to a unsatisfactory result.

For some countries, the sub-national level is not relevant for social security, that is there is only one national social security, that cannot be disaggregated at state and/or local levels. In this case, there is an inconsistency in the breakdown of the different sub-sectors. In effect:

- either: S13 sums up S131, S132, S133, in which case national social security is excluded from the total
- or: S13 sums up S1301 and 1302, but the distinction between central, state and local levels is lost

Turning now to countries where the central, state and local levels exist for social security. This does not solve the problem of comparability. For instance:

- for such countries, S133 includes social security funds existing at the local level
- however, it is not comparable to S133 of countries where there is no relevant social security identifiable at the local level
- the fact that the same code be used for both situations is therefore potentially misleading

This means that this classification is not designed in order to make comparable administrative organisations that are actually not. It is only a recodification exercise which leads to inelegant results.

Users are very accustomed to this coding. It is better not to change it.

Classification and codes of transactions in goods and services

Warning: in the document called *Annex 1: Classification and coding structure of accounting entries*, what is actually a classification of transactions in goods and services (products) is systematically called “Product codes” - in the table of contents and inside the document, which constitutes a double mistake since:

- transactions in products are identified, not products
- it is rather a classification than a simple code table

Output

What is shown here is the relevant denomination of the three types of output. This should absolutely remain unchanged.

Consumption of fixed capital as a transaction in products

In SNA93, consumption of fixed capital (CFC) was included in the other accumulation entries, coded K, where it was merged with flows that were mainly other flows, which could be seen as an anomaly since CFC is deemed to be a transaction.

In the present draft, the flows that are coded K are limited to the only other flows [1]. This has some rationale, however it opens the room for classifying CFC elsewhere. It is therefore proposed in Annex 1 to classify CFC inside transactions in products, a thing that raises however some concerns, the solution of which should lead to attribute to CFC a specific codification.

1. It is true that CFC can be, and is, calculated by product. However, while other transactions in products correspond to observed events, consumption of fixed capital results from modelling. This is not a pure theoretical statement. Other transactions are identifiable, although their value may be imputed. CFC does not correspond to an identifiable entity.

2. This can be specified with respect to the goods and services account and to product balances. These accounts are particularly relevant for transactions in products. Having a look at a simple balance for a product that is intended for fixed capital formation:

   - sales - output - refer to identified products: each product has an origin, a price, specific characteristics, et.
   - the same for imported products
   - thus, each item purchased for fixed capital formation can be identified
   - similarly, when a fixed asset is disposed of by a unit to be purchased by an other unit, it can also be identified: the item that leaves a stock of assets can potentially be followed up to the stock where it enters

   Nothing such can be made for consumption of fixed capital. There is no fixed asset item that can be identified as the one that is withdrawn for CFC purposes from a stock of fixed assets, since CFC does not cover a set of identifiable assets. Consumption of fixed capital is just an amount of value that has to be subtracted from the total value of a stock of fixed assets.

3. This feature makes the insertion of CFC into balances of products, and into the goods and services accounts, a bit problematic. CFC can actually be, and is, calculated by product; however, for a specific product, it represents a bundle of products from different vintages. Instead, the other transactions that are recorded in a balance of products refer to products available in the current period - the transactions on

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[1] This was however never discussed nor approved.

existing goods cancelling each other. At least for the purpose of the decomposition between price and volume components, this raises some problem, the price dimension of CFC being of a different nature of the price of other items.

4. Technically, the insertion of CFC in a balance of products may be considered as follows: Taking the case of a fixed asset item that is produced to be sold at a value of 100; the CFC on products of the same family amounting to 20, the balance of the product may be drawn up as follows:

Resources		
output		100
consumption of fixed capital (–)	–	20
total	=	80
Uses		
net fixed capital formation		80

It seems that this is the only way of drawing up a product balance that includes CFC [2]. The concern is that the price evolution of NFCF - the price index - cannot be inferred directly from published indices. In fact, it is more relevant to compile balance of products without showing CFC inside them.

For all these reasons, since it is hardly a transaction in products, it seems preferable not to include consumption of fixed capital as an ordinary transaction in products, that is in the middle of the sequential list of transactions, as if it was a transaction equivalent to others.

Furthermore, the proposed codification causes a collateral damage consisting in shifting the codes of imports and exports. It has been a long time indeed that exports and imports are coded P6/P7. Introduce a change should be avoided if not strongly justified.

By the same token, it is better to avoid to have net fixed capital formation in the sequential list of transactions in products. Net fixed capital formation does not correspond any more set of identifiable products.

The distinction gross/net that is very relevant for all balancing items from the sequence of accounts of institutional sectors is not relevant for flows of products. The only place where this information may be needed is the capital account. Instead, like CFC, it is not relevant for product balances, goods and services accounts or supply and use tables.

In addition, in the classification of transactions in products, it does not seem necessary to have a distinction, among CFC, between CFC on operating surplus and CFC on mixed income. This distinction appears logically and “naturally” in the sector accounts and, if felt useful, in the industry accounts.

2. In the integrated framework of suply and use tables, showing CFC as a transaction in products would imply to show it also in the make matrix. That is any producer would have an output vector combining positive values for its actual output, and negative values for the products making up its capital stock.

Classification and codes of transactions in non-produced assets

It should be referred to non-produced non-financial assets. This is the denomination used in the classification of non-financial assets.

It should be noticed that it is strange to have a classification relating to only one heading, i.e. transactions in non-produced assets. This stems from a curious decision to dissolve the SNA93 grouping of Other accumulations entries, which groups together:

- transactions in non-produced non-financial assets
- consumption of fixed capital
- other flows, consisting in:
  - other changes in volume
  - holding gains/losses
  - changes in classification and structure

As already seen, this decision involves a concern as regards consumption of fixed capital.

Classification and codes of distributive transactions

D44: Investment income disbursements

The name of this heading sounds oddly, since it covers transactions that do not actually lead to flows of cash, being typically imputed.

D443: (Investment income disbursements) attributed to collective investment fund share holders

The relating financial instrument is called:

Investment fund shares/units (F52)

For the comfort of users, it is suggested to stick to the denomination of the corresponding financial instrument, and to delete “collective” in the denomination of the property income transaction.

Is it also possible to delete “units” in the name of the financial instrument ?

General remarks about the classification of current transfers

When looking at the choices that have been made - grouping of all current transfers, separation of social transfers in kind -, one can notice that they have the only purpose to follow the accounting structure. The same concern seems to be the only cause that explains this surprising insistence for assessing that there is no transfers in kind, except social transfers in kind. In this context, the codification of transfers follows the breakdown of accounts: all current transfers being liable to be shown in the secondary distribution of income account, they are grouped under a common heading, while social transfers in kind are coded differently since they are shown in the redistribution of income in kind account.

This approach forgets completely the fact that the classification of transactions has not an accounting rationale, but an economic purpose. From that it comes that it is necessary to separate, among transfers, at least two large categories:

- taxes on income
- all transactions that have a social purpose, as understood in national accounts: thus, the grouping under D.6 of all “social transactions”, whether they correspond to a resource or to a use, whatever can be their administrative framework - social insurance or social assistance -, whatever may be their financing organisation - private insurance or social security.

All those shades explode in the proposed classification that is finally very poor from the point of view of the content of information.

D5: Current transfers in cash

There is here a denomination that stems from a doubly wrong choice:

- to group under a single heading - D5 - transactions that have radically different purposes
- to call all this stuff current transfers <u>in cash</u>

The grouping of all transactions that represent current transfers from a technical point of view under a single heading, at the 1st digit of the classification, does not correspond neither to users’ needs, nor to working customs of compilers. This is explained in-depth in a separate paper.

It is therefore necessary to scatter this group in order to stick to the SNA93 classification:

- D5: current taxes on income, wealth, etc.
- D6: social contributions and benefits, including social transfers in kind

- D7: other current transfers - a denomination which, however, indicates that other transactions are also transfers

The breakdown of these transactions according to their accounting nature will be simply evidenced by their presence in one account or the other.

This proposal has the collateral advantage to delete the irrelevant description of some of these transfers as being in cash.

This will also lead to keep D8 as the code for the adjustment item needed for the purpose of the dual recording for pensions.

This will also lead to the happy result consisting in keeping D9 for capital transfers.

D52: Net social contributions

See a separate paper

D6: Social transfers in kind

The classification that is proposed for social transfers in kind represents a change compared to SNA93. It consists in two headings:

D61: Social transfers in kind - government non-market production

D62: Social transfers in kind - market production purchased by government [3]

This is typically the kind of decision taken on a hurry without any reflexion !

Let us first notice that these transactions do not enable the recording of social transfers in kind by NPISHs, which would imply a duplication of the above transactions for NPISHs.

What is aimed at is to solve a very secondary technical accounting problem through a solution that forgets completely the purpose for which the classification has been designed.

There should be a single classification purpose for all transactions that make up social benefits. This purpose is obvious in SNA93, where all social benefits are grouped under the same heading D.6. In SNA93, the classification is built upon three embedded criteria:

- the type of social benefit: insurance vs assistance
- the accounting feature of the benefits: in kind vs other than in kind (i.e. in cash)
- inside social insurance benefits: by type of scheme

In SNA08, there is no basic change in the presentation of the social field. There are only two changes:

- the will to add a new dimension, consisting in separating pension benefits from other benefits
- a reconsideration of the schemes that are not social security ones

It has to be noted that the separation of pension benefits is not made for social assistance in cash, which includes in particular the so-called “safety nets”. This leads to an underestimation of the total of pensions, as pictured in the accounts.

When turning to social transfers in kind, the classification that is retained forgets completely that social transfers in kind are part of social transactions and that, consequently, the above criteria should also apply for them. SNA93 retains the following classification:

- D.631: social benefits in kind, with a distinction between social security and social assistance
- D.632: transfers of individual non-market goods and services

One concern that the present classification aims to solve deals with the respective content of the two headings when non-market services are provided through social security, which is a very secondary issue, that can be solved by a convention, whatever it can be [4] .

3. The wording is also wrong. Social transfers in kind do not bear on production, that is a processus, but on outputs or products (goods and services).

The tables that will be compiled according the SNA08 classification will show for social benefits only those which are in cash. For instance, social security reimbursements will no longer be identified. In the main tables relating to the economy or sectors, the total expenditures financed by social security schemes will be shown amputed of all benefits in kind. To summarise, this classification does not enable [5]:

- to have a complete view of social benefits
- to have a complete view of social security benefits
- to have a complete view of social insurance benefits
- to have a complete view of social assistance benefits

Proposal of change:

- to introduce the distinction pension/non-pension into social benefits in cash, and into social assistance benefits in cash
- to come back to the SNA93 sub-classification of social transfers in kind, that is:

  Social benefits in kind

    Social security benefits in kind, with a possible distinction between reimbursements and other

    Social assistance benefits in kind

  Transfers of individual non-market goods and services

4. It can be decided that non-market services provided through social security are mainly social security, or that they are mainly non-market. Preference given to the purpose should lead to the first solution. However, the second one may equally be chosen.
5. It will be possible to approach some of these totals only with the availibility of sub-sectors accounts. However, it will be impossible in general to identify social assistance completely.

D7: Change in pension entitlements

The financial assets that relate to pension schemes in SNA08 are called “Pension entitlements”. According to a current practice in national accounts, the same heading “Pension entitlements” refer both to assets/liabilities in balance sheets, and to transactions - acquisitions/disposals - in financial accounts.

It is also current practice to use the term “change in” to refer to the balance of the involved financial transactions. Here, the term “Change in pension entitlements” refer to the difference, positive or negative, between acquisitions and disposals of “Pension entitlements”, as recorded in financial accounts. However, change may also be understood as meaning the difference between successive balance sheet positions.

What is not current practice is to use the same term or heading to refer both to a non-financial transaction and to a financial transaction, even if their values are equal.

Therefore, to use “Change in pension entitlements” in order to refer to the adjustment item that is recorded in the use of income account could create confusion with the change in “Pension entitlements” as observed in the financial account.

This is why SNA93 used the term “Adjustment for the change in the net equity of households in pension funds” to refer to the adjustment item, and to not confuse it with the change in the “Net equity of households in pension funds”, despite the fact that the two amounts are deemed to be equal.

It is suggested to use the same good practice in SNA08, and to call the adjustment item:

Adjustment for changes in pension entitlements

which is, however, shorter than the equivalent in SNA93.

Moreover, in SNA08, the two things are not assumed to be always equal. The change in “Pension entitlements” that is derived from the financial account is indeed likely to be different from the corresponding adjustment item, recorded in the use of income account, in particular because there may be capital transfers paid to pension funds.

Classification and codes of financial transactions
(and of financial assets)

Fortunately, the global structure of the classification and the codes of financial transactions have not been changed, by comparison to SNA93 after the introduction of derivatives as a separate heading.

The global denomination of transactions has however changed from the simple “Transactions in financial instruments”, that sounded very well for the boring “Transactions in financial assets and liabilities”.

F6: Insurance, pension and standardised guarantee schemes

While the denomination of F.3 seems to have been inspired by a simplification purpose, the denomination of F.6 focuses all the possible drawbacks:

- it is very long
- it is a denomination from which nobody can deduct that it refers to a financial asset/transaction
- it includes a term “scheme” that does not point to a financial entity, scheme referring to a set of rules of an arrangement; instead “pension fund” has sometimes been criticised because referring both to a unit and to a transaction, which actually does not; no sub-heading includes the term.

Some other remarks may be brought to this heading and the corresponding sub-headings:

1. Insurance provisions

   The classification retains the denomination “Non-life insurance technical provisions”, whereas the text retains in general, but not always, the expression “Insurance technical reserves”.

   The relevant task-force suggested to substitute provisions to the SNA93 category of reserves. Insurance provisions, both life and non-life, are actually provisions, from an accounting point of view (see IFRS).

   If, for any reason, “provision” is not given a priority, the very simple expression “Insurance liabilities” may be used. It is frequently used by US insurance companies. It is also used in the long reference exploratory document made for consultation by IASB.

2. Life insurance and annuity entitlements

   It would be better to refer to life insurance liabilities as to “life insurance provisions” or “life insurance liabilities”. “Life insurance entitlements” does not seem to be seem to be of spread use.

   Whereas it may be found legitimate to include in the SNA text some explanations relating to how annuities work, it is not very relevant to include a specific reference to liabilities arisen from annuities in the denomination of financial instruments. Liabilities relating to annuities have the same properties as other life insurance liabilities.

   Insofar as there is no need to create a specific sub-headings for annuities liabilities, it is not worth mentioning it in the denomination.

3. Entitlements to non-pension benefits

   Is there really a need to have such a transaction ? Social benefits paid, usually through arrangements implying insurance corporations, under funded schemes are identified by the cross classification of transactions - under social benefits - and sectors - insurance corporations pay them.

   Entitlements to non-pension benefits, when identifiable, are likely to be small compared to the other liabilities included under F.6.

4. Provisions for calls under standardised guarantees

   Is there a need for identifying this transaction, and the relating liability ?

As explained in the text, this type of guarantee function as non-life insurance. The companies that are involved in this industry (see for instance, the accounts of Euler-Hermes, or the accounts of monoline insurers) have their accounting in the form of non-life insurance. Except where access is possible to individual accounts, it is likely that it will be impossible for compilers to be able to put a figure on this transaction.

it would therefore be strange that the whole transaction make reference to a position that, in practice, is likely to be empty.

From that, it may be concluded that the transaction should better be called:

Insurance provisions (or liabilities) and pension entitlements

F89: Other accounts receivable/payable

The full denomination should be:

Other accounts receivable/payable, except trade credits and advances

at least to avoid any confusion with the F8 transaction.

Classification and codes of other flows

There is an obvious movement to purifying the SNA93 group of “Other accumulation entries” of all flows that are not other flows, which leads to the present grouping “Other flows”.

The only logic guiding the design of the classification seems to lie in pure technical accounting considerations. This is not necessarily the best way to build classifications, that should also be oriented towards uses, being therefore more functionally-oriented.

In this respect, the “Other accumulation entries” group has some merits.

In addition, this results in changing all the codification of these flows, as if nobody had implemented SNA93, or that does not matter !

The changes brought to the classification of other flows

It was proposed to change the classification of other flows, in order to make it more compact. This proposal was attractive at first sight, since the SNA93 classification provides an impression of disorder.

This however does not prove to be finally relevant. An evidence is given by the fact that, for other changes in volume, the SNA08 text shows 9 inter-titles, i.e. exactly the number of the positions of the SNA93 classification, whereas the classification retains only 6 headings. In addition, the text does not follow the new classification, which is an evidence of the difficulty to fill it in.

This comes from the fact that the classification of other changes in volume is not actually so designed to be filled in with figures, having not actual an purpose of publication. It has instead rather a pedagogical purpose. This why it is shown as a list.

In the other changes in assets account, only the publication of the revaluation account seems to be part of the current dissemination of national accounts data. It is especially necessary to provide, for financial assets, both the changes coming from transactions and the changes coming from revaluations.

The main purpose of the other changes in volume of assets is, rather, to show, by contrast, what has to be recorded in the capital and financial accounts. For instance, taking the case of a stock of inventories, it is only by the understanding of what should be recorded in the other changes in volume and in the revaluation account, that it is possible to clearly understand what is the conceptual content of the “changes in inventories” that have to be recorded in the capital account, in order to build a correct methodology of estimation.

In other words, it is only by understanding what transactions are not that it is possible to understand in depth what they are, in the sense of what they cover. Further, up to now, the central part of national accounts consists in the compilation/publication of accounts relating to transactions (GDP, IOT, current accounts of sectors, …).

Two unfortunate modifications

The SNA93 classification provides a link with a potential environmental account. Three headings:

- economic appearance of non-produced assets
- natural growth of uncultivated biological resources
- economic disappearance of non-produced assets

allow a good apprehension of an economy of natural resources.

In the SNA08 proposed classification, the economic appearance of non-produced assets is merged in a general category “Economic appearance of assets”, with the very specific entries for the economic appearance of produced assets, that have more an accounting nature than an economic purpose.

The natural growth of uncultivated biological resources disappears, as a specific entry.

SNA93 also includes a heading related to other volume changes of financial assets. This heading disappears in the SNA08 classification. This leads, according to an understanding of the chapter 12 text, to record the writing-off of bad debts as an economic disappearance of non-produced assets (it is right that loans are not produced, however it is not frequent to include them in non-produced assets).

Changes in classification

In SNA93, even the fact that changes in classification and structures - the denomination of which is improperly shortened into “changes in classifications”, while the reference to structure is as least as important as to classifications - is in the last position of the classification is meaningful.

By difference with all the other accumulation entries, the changes in classification and structures do not modify the net worth of the institutional units involved. Even changes in structure do not change the net worth as soon as the concerned units are considered together before and after the restructuring operation.

In other words, the changes in classification of assets/liabilities are not really other changes in volume. They could equally be recorded in the capital or financial account.

For pedagogical purposes, it is important to keep the former heading:

Changes in classification and structure

Changes in structure occur daily, even if not reported. They are more important than changes in classification.

Classification and codes of non financial assets

For memo, it can be recalled that it is highly regrettable that the global structure of the SNA93 classification of non-financial assets has been completely destroyed, to be replaced by an unarticulated list of headings, and also that this decision was taken without actual discussion, being imported from the Canberra group in an authoritarian way. The deletion of the terms “tangible” and “intangible” [6], while being systematically used in current national accounts discussions and in the rest of the universe, will be seen from outside as a curiosity.

Military items

It is not clear why military items are introduced in the middle of the classifications.

While, finally, the classification of fixed assets having being completely “reorganised” [7], this does not actually matter for fixed assets, it was not really necessary to disturb the classification of inventories.

It would thus not be stupid to have military inventories after goods for resale, since no natural order seems to stand out.

AN124 Goods for resale

AN125 Military inventories

Contracts, leases and licenses

AN215 Other natural resources

It is better to delete the sub-classification and to avoid showing radio spectra [8], which is a bit anecdotical.

6. The only reference to “tangible/intangible” in the text is made to say that they are not used. They are even not used in the current discussion texts.
7. It is true that the absence of order may be seen as a supreme stage of organisation.
8. In general, it is not easy to show spectra ! brrrr ….

Supplementary tables

Pensions table

The flow:

Changes in entitlements due to negotiated changes in scheme structure

is classified under Other economic flows, while the relevant task-force decided that it was a transaction.