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**UNITS IN THE 1993 SNA**

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**Executive summary:**

1. This paper reviews the treatment of ancillary activities, ancillary corporations, holding companies, restructuring agencies, special purpose entities (SPEs) and output of ancillary units.
2. The 1993 SNA treats ancillary activities and ancillary corporations as an integral part of the establishment or enterprises that they serve. The main reasons for this are given in paragraph 5.13 which points out that an ancillary activity is not undertaken for its own sake, but in support of the principal or secondary activity it is associated with. This treatment has the advantage of recording production processes in the way producers perform them, respecting their choices as to whether to perform ancillary activities themselves or to outsource them. Thus, the national accounts are able to show structural differences between economies concerning integration or specialization of production processes. In the same vein, the national accounts can show structural changes over time. However, it can be argued that this approach has also disadvantages. Firstly, the accounts should show all economic activities, whether principal, secondary, or ancillary. Put differently, the structural decomposition of GDP by economic activities is not disclosed when ancillary activities are consolidated with the economic activity of the establishment it serves. Secondly, regional GDP can not be compiled accurately when the ancillary activities and the establishments it serves are located in different regional economies. Thirdly, one could point out that BOP transactions might not be disclosed when the ancillary corporation is non-resident because the SNA is not explicit on recording BOP transactions when the ancillary corporation is non-resident.
3. The issue of ancillary corporations was extensively debated when the 1993 SNA was prepared. An issue of concern was the creation of artificial legal units, which - if allowed in the national accounts - would suggest structural changes in the economy that did not take place in reality. This was, in addition to the supportive nature of ancillary activities referred to above, an important reason for the 1993 SNA to adopt the view that ancillary units should not be recognized, even if separately incorporated. Since then, globalization has drastically changed many economies. Relevant in this context is that enterprises often choose to incorporate ancillary activities abroad. Therefore, the present treatment of ancillary activities and corporations needs review. Moreover, the 1993 SNA does not give explicit guidelines for the classification of ancillary corporations such as restructuring agencies, securitisation vehicles and other special purpose entities created by the government.

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<sup>1</sup> This paper was prepared by Ivo Havinga, Gulab Singh, Herman Smith and Viet Vu for the fourth Meeting of the AEG, Frankfurt. The contributions of Adriaan Bloem on Part A. Ancillary units and Part B. Ancillary Corporations, Sage de Clerck, Keith Dublin, Anne Harrison, and Robert Heath on Part E. Special Purpose Entities and Philippe de Rougemont, Sage de Clerck and Jean Pierre Dupuis on Part F. Restructuring Agencies are acknowledged. The views expressed in this paper are those of the authors and should not be attributed to the United Nations

4. The thrust of the recommendations on specific types of units follows from the basic recommendations, namely, that units undertaking ancillary activities should be recognised as establishments and that ancillary corporations should be recognised as institutional units when they satisfy the criteria to qualify as establishments and institutional units, respectively. Specific recommendations are presented in the paper regarding their classification, their nature and the valuation and allocation of their output.

5. The main recommendations presented in this paper were discussed in the Expert Group Meeting (EGM) on Industrial Statistics convened by the United Nations Statistics Division in September 2005. In addition, recommendations on the treatment of the recording of transactions of non-resident securitization vehicles and conduits set up by government were established during the fourth meeting of the Taskforce on Harmonisation of Public Sector Accounts (TFHPSA) hosted by the International Monetary Fund in October 2005.

6. Considerations on the treatment of ancillary activities, ancillary corporations, holding corporations, restructuring agencies, trust and investment funds and special purpose vehicles (SPVs) are presented in separate sections of this paper. (This paper does not discuss the treatment of branches and multi-territory enterprises as the AEG has already made recommendations on these issues). Altogether, 16 recommendations are made to the AEG.

***Recommendation 1:*** *Units undertaking ancillary activities should be recognised as separate establishments (ancillary units) when they satisfy the conditions to be establishment and should be classified according to their own economic activity.*

***Recommendation 2:*** *Output of an ancillary unit should be valued by sum of cost plus a proportional allocation of the operating surplus of the establishments it serves. Operating surplus of establishments it serves may be allocated to the ancillary unit in proportion to indicators such as their output, value added or employment.*

***Recommendation 3:*** *Output of ancillary units should be allocated as intermediate consumption to establishments they serves in proportion to indicators such as their output, value added, or employment of the establishments using their services.*

***Recommendation 4:*** *Ancillary corporations should be recognized as institutional units and should be classified in their own right when they satisfy the criteria for qualifying as institutional units.*

***Recommendation 5:*** *Parent companies without significant production recognized as holding companies should be classified as other financial intermediaries.*

***Recommendation 6:*** *SPEs should be treated as institutional units when they satisfy the criteria for qualifying as institutional units and their output should be valued at cost if no market valuation method is available.*

***Recommendation 7:*** *There is no need for a separate classification of SPEs as they undertake a range of economic activities. The activities should be examined on a case by case basis and classified by existing industrial and institutional sector classifications.*

**Recommendation 8:** *The term securitization vehicles should be used for institutional units that undertake securitization of assets only and such institutional units should be classified as other financial intermediaries.*

**Recommendation 9:** *All flows and stock positions between the general government and the non-resident SPE should be recorded in the general government and SPE accounts when they occur.*

**Recommendation 10:** *If securitization is based on a future stream of general government revenue it is not the sale of an asset, but a borrowing transaction of the government. The economic substance of this transaction is best accounted for by imputing general government borrowing from the non-resident SPE for the same value and at the same time that the SPE incurs a liability to the foreign creditor.*

**Recommendation 11:** *When government creates non-resident entities, such as SPEs, to undertake government borrowing and/or incurring government outlays abroad with no economic flows between the government and the SPEs related to these fiscal activities, transactions should be imputed in the accounts of both the government and the non-resident entity to reflect the fiscal activities of the government.*

**Recommendation 12:** *Trust funds and investment funds that are created as legal entities, even without employment, should be treated as institutional units. Their output should be valued at cost if no market valuation of their output is available. These units should be classified, separately from securitization vehicles, in the industry classification and as other financial intermediaries in the institutional sector classification.*

**Recommendation 13:** *If the restructuring agency acts only to implement pre-specified government policy and bears no risk in the transformation of financial instruments connected with the restructuring, the agency is regarded as a non-market unit and part of the general government sector.*

**Recommendation 14:** *If the restructuring agency puts itself at risk in the transformation of the assets and liabilities of the units in difficulty and if it can determine the costs it can charge for the restructuring activity, it is treated as a financial corporation. Whether it is publicly controlled or purely private financial corporation is determined using the usual criteria.*

**Recommendation 15:** *When government uses a restructuring unit to channel funds to a unit in financial difficulties and the restructuring unit derives its main resources from activities other than acting as an agent of government, these funds should be shown as payable and receivable by the government and unit concerned directly and not routed via the restructuring agency.*

**Recommendation 16:** *Output of ancillary units should be recorded as market output when it is classified as part of the financial or non-financial corporations sector and non-market output when it is classified in the general government sector.*

**Does the AEG agree with these recommendations?**

## A. Ancillary units

### Background

7. The current treatment of production in the national accounts focuses on processes as they take place in enterprises. As paragraph 6.6 of the 1993 SNA states “production can be described in general terms as an activity in which an enterprise uses inputs to produce outputs.” The same paragraph states “The economic analyses of production is mainly concerned with activities that produce outputs of a kind that can be delivered or provided to other institutional units.” Because many enterprises carry out several production activities the System distinguishes principal activities and secondary activities, which it both restricts to output suitable for delivery outside the unit. To accommodate the notion that one enterprise can engage in several activities the System uses the term establishments for the description of the production process units. However, both for principal and secondary activities, the emphasis is on outputs delivered outside the unit, which excludes ancillary activities. The advantage of this approach is that it provides an accurate picture of the economic structure of an economy in respect of specialization and integration of production processes. This is of analytical importance, because it allows the national accounts to show structural differences between countries and structural developments over time.

8. It can be argued that the approach of the 1993 SNA has the disadvantage that an assessment of the contribution and role of ancillary activities in the economy can not be made. In the same vein, one could argue that the structural decomposition of the GDP by economic activities is not correctly depicted when the ancillary activity is consolidated with the economic activity of the establishment it serves and that the input-output structure of the economic activity does not reflect the ancillary activities explicitly. However, it could be difficult to realize full exposure of ancillary activities owing to data constraints.

9. Another disadvantage of the 1993 SNA treatment of ancillary activities is that regional GDP can not be compiled accurately when the ancillary activity and the establishment it serves are located in different regional economies. The SNA is also not explicit on recording BOP transactions when the ancillary corporation is non-resident.

### Recommendations

10. Two alternatives might be put forward to overcome the disadvantages mentioned in the previous paragraphs. Firstly, to abandon the concept of ancillary activities altogether and to always treat them as secondary production. Secondly, to recognized units undertaking ancillary activities as separate establishments provided they satisfy conditions to be identified as establishments. These establishments may be called ancillary units.

11. However, treating ancillary activities as producing secondary products does not take advantage of recording the input structure or production technology of the ancillary activities that are different from the production of the principal product. Moreover, ancillary activities recorded as secondary production does not allow these to be classified according to the industry most appropriate to their own activity.

12. The second alternative does not intent to recognize all units undertaking ancillary activities as separate establishments<sup>2</sup>. Consequently, indicative guidelines need to be considered

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<sup>2</sup> An establishment is recognized when: (i) it is situated at a single location, (ii) it carries out a single or principal productive activity (1993 SNA: 5.21).

to decide which units that undertake ancillary activities are to be recognized as establishments. Fortunately, the 1993 SNA already provides two indications, namely (i) separate establishments should be identified for activities in horizontally integrated enterprises (1993 SNA: 5.30) and (ii) for activities that span two or more headings at first level of breakdown of the ISIC in vertically integrated enterprises (1993 SNA: 5.34). Two additional guidelines could be used to decide when units undertaking ancillary activities should be recognized as separate establishments. These are (i) separate cost accounts of the ancillary activity can be identified, and (ii) when the ancillary units are in a geographical location different from the establishments they serve.

13. The EGM on Industrial Statistics considered the recording of ancillary activities, the issues related to valuation of their output, and the allocation of output as intermediate consumption to the establishments they serve.

***Recommendation 1:** Units undertaking ancillary activities should be recognised as separate establishments (ancillary units) when they satisfy the conditions to be establishment and should be classified according to their own economic activity.*

***Recommendation 2:** Output of an ancillary unit should be valued by sum of cost plus a proportional allocation of the operating surplus of the establishments it serves. Operating surplus of establishments it serves may be allocated to the ancillary unit in proportion to indicators such as their output, value added or employment.*

***Recommendation 3:** Output of ancillary units should be allocated as intermediate consumption to establishments they serves in proportion to indicators such as their output, value added, or employment of the establishments using their services.*

### **Implications for the SNA**

14. The change in the treatment of ancillary units would not affect total value added or GDP of the economy. However, the distribution of value added by industry would be affected, because value added of establishments as currently defined would be lower and value added of ancillary units would be shown separately. The allocation of output of ancillary units is not expected to require additional work by statisticians. In fact, the 1993 SNA already requires allocation of ancillary costs to the establishments they serve.

## **B. Ancillary corporations**

### **Background**

15. An issue related to the treatment of ancillary activities is the 1993 SNA treatment of ancillary corporations. The UN's *A System of National Accounts (1968 SNA)*, already discussed such units, although not comprehensively.<sup>3</sup> As a prelude to later discussions, the following quote is of interest, though: "However, some individual legal entities may not be viable economic agents; they may have been established for convenience only." (1968 SNA: 5.63.) In some countries a rapid expansion of such "convenience" legal entities occurred during the 1980s - a development that has now expanded globally. While such corporations were set up in first instance to create the semblance of outsourcing ancillary activities, the appearance of new arrangements of production and financing brought about ancillary corporations that have no significant production or employment. These are legal entities set-up for specific purposes such as

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<sup>3</sup> The 1968 SNA discusses ancillary departments of government in paragraph 5.13 and private sector ancillary activities in paragraph 5.19.

the managing of the operations of companies and portfolios of assets and liabilities. They take forms such as head offices, restructuring agencies, special purpose entities, shell companies, limited liability partnerships or trusts.

16. Ancillary corporations are not treated as institutional units in the 1993 SNA (paragraphs 4.40 to 4.44); instead they are treated as an integral part of the parent and their accounts are consolidated with those of the parent to form a single institutional unit. In this case, no output is generated by the ancillary corporations. According to paragraph 4.44, ‘ancillary corporations are not treated as separate institutional units because they can be regarded as artificial units created to avoid taxes, to minimize liabilities in the event of bankruptcy, or to secure other technical advantages under the tax or corporation legislation in force in a particular country.’ However, in the light of the proposed change in the treatment of ancillary activities, the existing principles on ancillary corporations should be reviewed.

#### **Shortcomings of the current treatment**

17. The treatment of ancillary activities in the 1993 SNA focuses on the description of production processes as they are organized in reality, ignoring legal structures put in place for various reasons. As mentioned, the advantage of this approach is that it allows depicting the actual structure of an economy in respect of specialization or integration of production processes. It can be argued that the paragraphs quoted above are inconsistent with the view - also included in the 1993 SNA - that control, financial independence and independence in decision making are not criteria used in the decision to recognise a legal entity as an institutional unit. The 1993 SNA states clearly in paragraphs 4.38 and 4.39 that a subsidiary corporation even though wholly owned and subject to control by another company should be treated as a separate institutional unit. The treatment of ancillary corporations in the 1993 SNA is also inconsistent with that of holding companies which are recognized as institutional units. However, these statements are made in the context of the recording of groups of corporations and holding corporations, and not with ancillary activities.

18. In addition, when the ancillary corporations are treated as an integral part of a parent company with subsidiaries, the production and institutional structures are distorted, because of the allocation to the various corporations. Such allocations could be seen as hampering the analyses of economic trends and productivity. However, it could also be argued that by *not* allocating ancillary activities can also have such an adverse effect.

19. An important development since the introduction of the 1993 SNA is the increased globalization. A relevant aspect of globalization for the present discussion is the creation of ancillary corporations abroad. In this respect, the MFSM 2000 (paragraph 77) is unambiguous and treats an ancillary corporation as “a separate institutional unit if it is located in a different economy from that of the parent”. One important reason for this treatment is that such units are subject to the laws of the host country. Also, they are likely to interact with its economy, for instance, by using local labor and locally produced goods and services.

#### **Recommendations**

20. The EGM on Industrial Statistics recommended that, in line with the treatment of ancillary units, ancillary corporations should be recognized as institutional units. Valuation of their output and its allocation as intermediate use to other units should be done on similar lines as proposed under recommendations 1 and 2.

**Recommendation 4:** *Ancillary corporations should be recognized as institutional units and should be classified in their own right when they satisfy the criteria for qualifying as institutional units.*

**Implications for the SNA**

21. The recognition of ancillary corporations as institutional units is a change in the 1993 SNA.

**C. Holding companies**

**Background**

22. In the 1993 SNA, parent companies without significant production have been recognized as holding companies whose main activity is to control and direct the subsidiary companies (1993 SNA: 4.37).

23. The 1993 SNA discusses the classification of a holding company only in the context of financial corporations. “Holding corporations are classified as financial if the preponderant type of activity of the group of corporations as a whole is financial. In the absence of suitable information about the relative sizes of the subsidiaries, a holding corporation may be classified as financial if a simple majority of the corporations it controls are financial. Similarly, financial holding corporations may be allocated to sub-sectors according to the type of financial activity mainly carried out by the group it controls” (1993 SNA: 4.100).

**Shortcomings of the current treatment**

24. The 1993 SNA treats holding companies as separate institutional units, but “looks through” them to the operations of their subsidiaries when determining their sector classification. This classification principle could be equally applicable to a holding company with non-financial corporations as subsidiaries, whereby it would be classified in the non-financial corporations sector. However, this classification does not seem to capture the main activity of the holding company, which predominantly is financial.

**Recommendation**

25. Classification statisticians have addressed the industry classification of the activities<sup>4</sup> of holding companies. These are classified as financial services. The EGM on Industrial Statistics made the following recommendation regarding the sector classification of holding companies.

**Recommendation 5:** *Parent companies without significant production recognized as holding companies should be classified as other financial intermediaries.*

**Implications for the SNA**

26. This recommendation represents a change in the SNA.

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<sup>4</sup> ... units that hold the assets (owning controlling-levels of equity) of a group of subsidiary corporations and whose principal activity is owning the group. The holding companies in this class do not provide any other service to the businesses in which the equity is held, i.e. they do not administer or manage other units.



## D. Special Purpose Entities

### Background

27. Special Purpose Entities (SPEs, also known as Special Purpose Vehicles (SPVs)) are set up to carry out activities or series of transactions directly related to the specific purpose for which they are formed. The scope of their activities is broad. They historically originated in the non-financial sector but their use has spread to the financial and the government sectors. They commonly engage in activities such as providing asset management, corporate treasury services, trusts, public-private partnerships and securitization programs. Most SPEs have little or no employment, or physical presence. Many are set up in economies other than that of the parent company.

### Shortcomings of current treatment

28. The SNA does not provide explicit guidelines on the treatment of SPEs, though it can be assumed that they are ancillary corporations serving other corporations, the government or households. Therefore, according to the 1993 SNA they should be treated as an integral part of the parent and their accounts should be consolidated with the account of the parent. The IMF's Monetary and Financial Statistics Manual (MFSM 2000) uses this treatment for most SPEs unless they sell new financial products.

29. The European System of Accounts (ESA95) treats SPEs set up by government as separate institutional units. The AEG has recommended that a non-resident SPE should always be treated as an institutional unit.

### Recommendations

30. The EGM on Industrial Statistics recommends the following:

*Recommendation 6: SPEs should be treated as institutional units when they satisfy the criteria for qualifying as institutional units and their output should be valued at cost if no market valuation method is available.*

*Recommendation 7: There is no need for a separate classification of SPEs as they undertake a range of economic activities. The activities should be examined on a case by case basis and classified by existing industrial and institutional sector classifications.*

*Recommendation 8: The term securitization vehicles should be used for institutional units that undertake securitization of assets only and such institutional units should be classified as other financial intermediaries.*

31. There are special considerations that apply to non-resident SPEs created by government to undertake quasi-fiscal activities. For these entities it is recommended to record all transactions between the government unit and the SPE and in some instances to impute transactions, to reflect these activities appropriately in the government accounts. This will ensure that the financial relationship between the SPE and its parent general government unit is presented in a transparent manner.

32. The reason for imputing such transactions is to capture more appropriately the fiscal activities of general government. Unlike the private sector, there is a need to impute transactions for the general government sector because the SPE undertakes functions at the behest of general government for public policy purposes that would otherwise be omitted from the accounts of

general government. The TFHPSA recommends the following recording in the accounts of government and non-resident SPEs, created to undertake fiscal functions:

**Recommendation 9:** *All flows and stock positions between the general government and the non-resident SPE should be recorded in the general government and SPE accounts when they occur.*

**Recommendation 10:** *If securitization is based on a future stream of general government revenue it is not the sale of an asset, but a borrowing transaction of the government. The economic substance of this transaction is best accounted for by imputing general government borrowing from the non-resident SPE for the same value and at the same time that the SPE incurs a liability to the foreign creditor.*

**Recommendation 11:** *When government creates non-resident entities, such as SPEs, to undertake government borrowing and/or incurring government outlays abroad with no economic flows between the government and the SPEs related to these fiscal activities, transactions should be imputed in the accounts of both the government and the non-resident entity to reflect the fiscal activities of the government.*

### **E. Trust funds and investments funds**

33. In light of the recommendations about ancillary units and corporations, the EGM on Industrial Statistics makes the following recommendations for the treatments of trust funds and investment funds

**Recommendation 12:** *Trust funds and investment funds that are created as legal entities, even without employment, should be treated as institutional units. Their output should be valued at cost if no market valuation of their output is available. These units should be classified, separately from securitization vehicles, in the industry classification and as other financial intermediaries in the institutional sector classification.*

### **F. Restructuring agencies**

#### **Background**

34. This section of the paper provides clarification on the treatment of restructuring agencies. Restructuring agencies may serve public or private sector objectives. The two circumstances when restructuring agencies may be established for public purposes concern the restructuring of public sector enterprises, for example via privatization, and financial rescue operations in order to prevent a collapse of the financial system. In the latter case, the intent of the rescue may be either to save existing financial corporations from disappearance or, alternatively, to orchestrate their disappearance in an orderly fashion. These operations are government fiscal activities rather than financial intermediation and should therefore be reflected in statistics accordingly.

35. Restructuring can be divided into four types of economic activities:

- reviewing the rehabilitation plans and overseeing the liquidation or reorganization process of corporations (*financial advisory services*);
- reviewing the rehabilitation plans and overseeing the restructuring of non-financial production processes of corporations (*management consultancy services*);

- controlling and directing the rehabilitation plans and overseeing the liquidation or reorganization process of corporations by acquiring the assets and liabilities of the corporation (*holding company services*);
- securing financial stability through transactions in financial assets by acquiring, managing, and disposing of impaired assets of financial corporations (*asset management services on own-account*).

36. It is not necessarily the case that separate units will be set up to undertake these restructuring activities. In the case of privatization, for example, government may simply contract an investment bank to arrange the share flotation accompanying privatization. Nor is it necessarily the case that government directly controls the restructuring process. It is possible to have a central bank, in concert with commercial banks, rescuing other financial institutions. However this section is concerned with the case where a separate entity is established, which may be regarded as a separate institutional unit in some cases but in other cases will not comply with the requirements of being a separate institutional unit.

37. The restructuring unit may be set-up as a new unit, as observed in the case of financial rescue, or may be an existing unit, for instance a holding company acting under the control of the government, for example in the case of privatization.

#### **Shortcomings of the current treatment**

38. The 1993 SNA does not specifically discuss the types or sectoral classification of restructuring agencies. This is an omission which should be rectified. The classification should first consider whether there is a separate unit established to carry out the restructuring process. Guidance is then needed on how to establish whether the unit is publicly controlled and then whether it falls into the government sector directly or is to be treated as a publicly controlled financial corporation. Government's involvement in the process could range from merely initiating a restructuring process to fully bearing all the risks.

#### **Types of restructuring agencies**

39. The two types of restructuring being considered here are:

- Restructuring the public sector, by the selling of corporations or subsidiaries, the selling of non-financial assets, the reorganization of establishments and changes in management etc.: this may cover various activities usually conducted by consultancy services, holding companies and so on.
- Defeasance of impaired assets: this concerns financial corporations, often in the context of a banking crisis. Governments have been very active in such rescue operations, one of these forms of rescue being the setting up of specific entities in charge of managing the impaired assets and of their sale on the market, as well as in the financing of the process.

#### **Sectoral classification of restructuring agencies**

40. To be an institutional unit, a restructuring agency should be entitled to own assets, incur liabilities and engage in economic transactions with other units; and it must have a complete set of accounts (1993 SNA: 4.2).

41. The second step is to check whether the restructuring agency is a public unit (acting under the control of a government unit or of another public unit). If it is established specifically

to implement government policy then there is clear evidence of government control. As noted above, though, restructuring may in certain circumstances be undertaken without setting up a special unit or may be initiated by other financial institutions.

42. The third step, is to check whether the restructuring agency operates in a market or non-market manner. Agencies operating on a market basis are treated as public corporations; those operating on a non-market basis are treated as units within general government. The distinction between market and non-market production is whether the prices charged for output are economically significant or not. The criterion of whether the prices charged are economically significant may be difficult to establish (as with other financial services), in which case other criteria, such as the risk assumed by the agency, may be used.

43. A unit which functions entirely at the behest of government in carrying out a pre-determined set of fiscal policy objectives may not determine its level of output in response to demand. Cases may occur in which the activities of the restructuring agency, may have some common characteristics with financial intermediation, but is not putting itself at risk. This is usually evidenced by a mismatch between the assets and liabilities and government's commitment to assume the ultimate liability. In these circumstances, the unit should be regarded as a non-market unit and classified in general government. Only if risk is assumed and in incurring liabilities and acquiring assets should the unit be classified as a financial corporation. If government or another publicly controlled unit controls this financial corporation, it will be a public financial corporation

44. Each transaction that government enters into with a restructuring agency should be examined to reflect the economic substance of the transaction in order to record the value and timing of it appropriately according to the circumstances and accounting rules prescribed within the framework of the SNA.

45. It is possible that a single restructuring unit controlled by government may undertake the restructuring of a number of enterprises which would then appear as subsidiaries of the restructuring agency. If, in the process of restructuring, the agency transfers funds or assets from one of these subsidiaries to another, then these funds should be recorded as being transactions between the government and the subsidiary directly and not routed via the restructuring agency.

46. The output of restructuring agencies is measured either by the fees charged for services delivered (if it is deemed to be a market producer) or otherwise at cost.

## **Recommendations**

***Recommendation 13:** If the restructuring agency acts only to implement pre-specified government policy and bears no risk in the transformation of financial instruments connected with the restructuring, the agency is regarded as a non-market unit and part of the general government sector.*

***Recommendation 14:** If the restructuring agency puts itself at risk in the transformation of the assets and liabilities of the units in difficulty and if it can determine the costs it can charge for the restructuring activity, it is treated as a financial corporation. Whether it is publicly controlled or purely private financial corporation is determined using the usual criteria.*

**Recommendation 15:** *When government uses a restructuring unit to channel funds to a unit in financial difficulties and the restructuring unit derives its main resources from activities other than acting as an agent of government, these funds should be shown as payable and receivable by the government and unit concerned directly and not routed via the restructuring agency.*

#### **G. Output of ancillary units at cost: Is it market or non-market output?**

##### **Background**

47. A question has been raised in the EGM on Industrial Statistics as to whether the output of ancillary units and ancillary corporations, measured at costs, should be considered market or non-market production.

##### **Shortcomings of the current treatment**

48. Though there is no explicit guidance in the 1993 SNA on this issue, in this context, a reference could be made to the recording of transactions of NPIs serving businesses. The SNA argues that “the NPIs are usually financed by contributions or subscriptions from the group of businesses concerned. The subscriptions are treated not as transfers but as payment for services rendered.” (1993 SNA: 4.59). It is quite clear that the 1993 SNA treats output of NPIs serving businesses as market output. Therefore, given this treatment for NPIs serving businesses, it seems most appropriate to treat the transactions of ancillary units that serve businesses similarly. Moreover, if an ancillary unit is recognised as an institutional unit and is classified as a corporation; its production is regarded as market output. However, when it is classified in the general government sector, its production is regarded as non-market output.

##### **Recommendation:**

49. The EGM on Industrial Statistics recommended that the output of the ancillary unit, even though valued at cost, should be treated as market output when classified in the corporations sector. The output of a unit is measured as the sum of all costs; some of the output may be consumed as incidental costs by other units; the remainder is treated as intermediate consumption of the establishment(s) it serves.

**Recommendation 16:** *Output of ancillary units should be recorded as market output when it is classified as part of the financial or non-financial corporations sector and non-market output when it is classified in the general government sector.*