

# **Advisory Expert Group on National Accounts**

## **Annotated agenda**

### **9<sup>th</sup> Meeting of the Advisory Expert Group on National Accounts 8-10 September 2014, Washington D.C.**

#### **I. Introduction**

In accordance with its mandate from the United Nations Statistical Commission (UNSC), the Advisory Expert Group (AEG) is assisting the Intersecretariat Working Group on National Accounts (ISWGNA) in resolving issues on the SNA research agenda, the implementation of the SNA, and as well as emerging research issues. The main purpose of the ninth meeting of the AEG is to consider guidance on issues related to the implementation of the SNA. These issues are: accounting for pensions; global production arrangements; the valuation of land and other non-financial assets; the recording of flows and stocks of international organizations; the SDMX-initiative related to national accounts, balance of payments and foreign direct investment; the use of indicators on deficit and debt; manuals, handbooks and other guidance; statistical units in supply and use tables and institutional sector accounts; distribution of income, consumption and wealth; and practical national accounts issues such as backcasting and the use of big data for national accounts compilation.

#### **II. Current issues**

##### **1. Implementation of the 2008 SNA**

###### **1.1. Progress with the implementation of the SNA (Lead: UNSD)**

The global initiative for the implementation of the 2008 SNA, endorsed by the UNSC, is based on an integrated statistics approach. With the adoption of this approach, the programme on the implementation of the SNA has broadened its scope beyond the production of macroeconomic accounts to the whole statistical production process of basic statistics and aspects of the institutional environment to facilitate the regular and sustained compilation of the accounts. For example, the institutional environment covers aspects such as seeking political commitment and allocation of adequate resources for official statistics, using statistics for evidence based policy making, and strengthening the national coordination for statistics.

##### **2. Accounting for pensions**

###### **2.1 Methodology for delineation and measurement of pension entitlements (Lead: Eurostat and OECD)**

The 2008 SNA recognises that employment-related pension entitlements should be recorded in the set of standard tables of the SNA. At the same time some flexibility is provided regarding pension entitlements of unfunded pension schemes sponsored by government for all employees (whether private sector employees or government's own employees) which are intertwined with social security schemes. Given that these schemes vary considerably from

country to country, only some of these unfunded pension entitlements may be recorded within the core system of national accounts.

Under this item, the distinction between the various schemes will be discussed, including the possible development of criteria for distinguishing between pension schemes of which the pension liabilities are to be recognised in the core system, and those for which the liabilities are not being recognised. Furthermore, an overview will be provided on the progress made so far in measuring the data needed for the compilation of table 17.10. It will also address the main methodological issues and possible data sources to arrive at high quality comparable estimates.

## 2.2 Table on household resources for retirement (Lead: OECD)

This item will address common issues such as financing retirement incomes with an aging population, increasing debt concerns and the sustainability of consumption patterns. Though the strategy of encouraging increased savings for retirement, via pension schemes and other initiatives is common to most countries, there are substantial differences in how these strategies have been implemented across countries. To facilitate the collection and dissemination of internationally comparable data the compilation on an additional table containing an overview of the household resources for retirement is proposed.

## 2.3 Treatment of holding gains and losses in investment income (Lead: UNSD)

The 2008 SNA recommends that in the absence of explicit fees, service charges should be implicitly calculated for non-life insurance, reinsurance, life insurance, annuities, standardized guarantee schemes, defined contribution and defined benefit pension funds. The 2008 SNA appears to provide conflicting guidance on whether to include holding gains/losses in the estimates of investment income attributable to insurance policyholders and pension beneficiaries that are treated as premium or contribution supplements in the calculation of the implicit service charges for insurers and pension funds. In instances where the 2008 SNA appears to recommend the inclusion of holding gains/losses in the estimates of this investment income, it is silent on whether these holding gains/losses should include only realized ones. The 2008 SNA is also not explicit on whether holding gains/losses should be included in the change in life insurance and annuity technical reserves and the change in pension entitlements when calculating the implicit service charges for life insurance, annuities and pension funds.

## 2.4 Imputation of property income in the case of liabilities between the sponsor and the pension fund (Lead: BEA)

The 2008 SNA states that when a pension plan sponsor is responsible for meeting the liabilities of the fund in case of any shortfall, the shortfall should be recorded as a claim of the fund on the sponsor. As a consequence, the net worth of the pension fund should remain exactly zero at all times. Under the 2008 SNA, the unwinding of the discount factor on the pension entitlement is shown as property income flowing from the pension fund to households. If the pension fund is persistently underfunded, however, the unwinding of the discount factor also applies to the claim of the fund on the sponsor, suggesting that a property income flow should be recorded from the sponsor to the pension fund reflecting the unwinding of the discount factor on any underfunding of the pension scheme.

### **3. Global production**

#### **3.1 Economic ownership over Intellectual Property Products (Lead: TFGP)**

Identifying economic, as opposed to legal, ownership of intellectual property products (IPP) assets held by special purpose entities (SPEs) within large multinational groups is a challenging task. In this context, the Task Force on Global Production (TFGP) developed a decision tree for more broadly assigning economic ownership of IPPs to entities (including SPEs) participating in global production arrangements or belonging to multinational enterprise groups. Statistics Netherlands developed a methodology for the recording of output and related transactions of royalty and licensing SPEs in the national accounts.

#### **3.2 Factoryless goods producers (Lead: UNECE)**

In 2013, the AEG reviewed the industrial classification of a new type of global production arrangement, the so called factoryless goods producers. The AEG supported the proposal of the TFGP that ownership of material inputs should not be the sole determining factor in classifying an FGP and consequently agreed that FGPs should be classified as manufacturers. The recognition of the factoryless production arrangement requires further elaboration of the three global production arrangements: transformation of goods owned by others (goods for processing), merchanting, and factoryless goods production. The emphasis is placed on the recording of the output and respective international transactions.

### **4. Manuals, handbooks and other guidance**

#### **4.1 Manuals, handbooks and other guidance (Lead: UNSD)**

The ISWGNA initiated the compilation of manuals, handbooks and guidance notes to strengthen the statistical capacity for compiling national accounts in accordance with the implementation programme for the 2008 SNA and supporting statistics.

### **5. The outcome of AEG consultations**

#### **5.1 Distinction between volumes and prices when the value of land changes (Lead: OECD)**

The outcome of a written consultation of the AEG on how to distinguish the changes in the value of land between balance sheets is presented under this agenda item. The initial consultation note was prepared by the joint Eurostat-OECD Taskforce on Land and other Non-financial Assets to further clarify the guidance of the 2008 SNA on whether to record the change in the value of land as an “*other change*” in volume or as a “*revaluation*”, when the change in the value of the land was due to changes in the surrounding amenities of the land instead of due to a change in the economic use of the land. While the responses of the various AEG members were diverse, there was a slight preference (5 out of 9 responses) to record “changes in the value of land that are due to changes in the surrounding amenities of the land” as holding gains (revaluations) and not as volume changes.

## 5.2 Institutional sub-sectors and the delineation of head offices, holding companies and special purpose entities (Lead: Eurostat)

The outcome of the consultation of the AEG at its last meeting on the classification of head offices, holding companies and SPEs is presented in this session. Countries reported that they experience difficulties when implementing the 2008 SNA recommendations on the delineation of the more detailed sub-sectors within the financial corporations sector (and the provision of information related to them), and the classification of head offices, holding companies and SPEs.

### III. New issues

#### 6. Recording flows and stocks of international organizations

##### 6.1 Treatment of output international financial institutions (Lead: IMF)

International financial institutions (IFIs) such as the IMF, World Bank, and regional development banks are public financial corporations (and, by implication, institutional units) that are, as a rule, non-residents vis-a-vis countries, residing in the “international economic territory”. Like other financial corporations, they use inputs to produce financial intermediation output, which has a directly measured (fee) and an indirectly measured FISIM component. They are jointly owned by the governments of their member countries under cooperative arrangements, such as the IMF Articles of Agreement. The characterization and compilation of their output, and the use of that output by their member countries require elaboration under the current SNA guidelines, but also may have implications for the scope of the financial instruments associated with the production of FISIM as well as the financial instruments associated with the use of FISIM.

This subject falls under the 2008 SNA Research Agenda items for FISIM (2008 SNA, paragraph A4.33), Income arising from assets (2008 SNA, paragraph A4.36), and Definition of income (2008 SNA, paragraphs A4.23 and A4.27).

##### 6.2 Equity claims on international organizations (Lead: IMF)

IFIs such as the IMF, World Bank, and regional development banks are institutional units and, as such, have net worth calculated as the difference between their assets and liabilities. The member countries of these institutions are their owners under cooperative arrangements, such as the IMF Articles of Agreement, and thus have a claim on the institutions’ breakup values that is characterized as AF519 – Other equity (2008 SNA, paragraph 11.88 and Annex 1, paragraph A1.26, and BPM6, paragraph 5.26). The concept of “*Other equity*” as it applies to the IMF has been explored with the Balance of Payments Committee (BOPCOM), but applies to a broader class of cooperative financial institutions, such as credit unions. In view of its broader applications, the paper provided to BOPCOM would be presented to the AEG under this agenda item.

## **7. The valuation of natural resources (Lead: OECD)**

### **7.1 Methodology for the valuation of natural resources (Lead: OECD)**

The new System of Environmental-Economic Accounting (SEEA) Central Framework has been adopted and awaits implementation. To help further this work, methodological guidance on the measurement of natural resources in the national accounts will be developed over the course of the next two years. Under this item, an update on this work will be provided. In this respect, some more concrete proposals will be put forward to take into account risk elements in the valuation of natural resources.

## **8. Practical issues in national accounts**

### **8.1 Backcasting (Lead: UNSD)**

Long time series are very important for analytical purposes and maintaining the economic history of a country. Breaks in time series occur due to the adoption of new or updated international standards leading to changes in concepts, classifications, delineating institutional sectors, and sequence of accounts. They could also be introduced due to statistical revisions such as implementing new or revised data sources, implementing new interpolation/projection techniques and other methodological changes. Backcasting is a statistical technique employed to ensure the coherence of the time series across time while maintaining economic history of a country. Under this agenda item some practical examples of backcasting methodology will be explored.

### **8.2 Big data: The use of big data in national accounts compilation (Lead: UNSD and country presentations)**

The advent of the Internet, mobile devices and other technologies has caused a fundamental change to the nature of data. Big Data has important and distinct qualities that differentiate it from “traditional” institutional data, particularly the timeliness of the data. Big Data could provide information on topics that are currently under the purview of national statistical offices (NSOs). Consequently, some NSOs have started to explore how best to harness Big Data in order to supply quality statistics for improving economic performance, social well-being and environmental sustainability. For example, computing a price index to estimate inflation by collecting price information over the internet could be published daily with a three day lag as opposed to the official inflation numbers which are published monthly with an even longer lag. A quick turn-around allows for early detection of inflation trends and may allow policy makers to tailor policies in a much timelier manner. This session will explore ways of using Big Data in the compilation of national accounts aggregates.

## **IV. The SNA research agenda**

### **9. The 2008 SNA research agenda**

#### 9.1 Issues going beyond the 2008 SNA recommendations (Lead: UNSD)

Annex 4 of the 2008 SNA lists research issues that have emerged during the update of the 1993 SNA, but where more extensive consideration is needed than was possible in the course of the update process. At its meeting in 2012 the AEG agreed with ISWGNA to focus only on issues related to practical implementation, clarifications and interpretation of the 2008 SNA, and not touch upon issues beyond the 2008 SNA. However, a number of issues particularly related to the definition of income were brought to the attention of the ISWGNA, which require a general discussion on the way forward with issues going beyond the 2008 SNA recommendations. These issues include: the financial instrument and unit scope of FISIM and the connection between the recommendations on implementation of FISIM and the definition of income; whether the capital income derived from the investment of insurer's own funds should be included in the calculation of the output and value added of insurance; and the treatment of statistical units in the supply and use tables and institutional sector accounts.

#### 9.2 Statistical units in Supply and Use Tables and Institutional Sector Accounts (OECD and UNSD)

The rapidly changing nature of production and in particular the ways in which producers produce goods and services has cast a spotlight on the SNA's preference for the use of the establishment as the preferred unit to compile industrial statistics, and in particular, supply and use tables. One of the primary motivations for this preference reflected the view that establishments classified to the same industrial classification grouping shared similar characteristics in their production functions, and, so, were considered broadly 'homogeneous'. However the increasing international fragmentation of production, coupled with the growing emergence of new types of producers has weakened underlying assumptions of homogeneity. In addition to practical problems in implementing the concept of the establishment, this calls for a reconsideration of the statistical unit used in the supply and use framework.

Another discussion regarding statistical units relates to the interpretation of the SNA-definition of an "institutional unit" for the compilation of institutional sector accounts. Criteria such as autonomy of decision making or the ability to take economic decisions, and even the availability of a complete set of accounts, are interpreted in quite different ways, leading to a lack of an international comparable implementation. Sometimes, this may be caused by the availability of source data, in other cases it is a matter of interpreting the SNA differently. In practice, one can notice, for example, differences in the delineation of institutional sectors when it comes to the recognition of quasi-corporations. In other cases, one can observe the use of legal units, enterprises or even enterprise groups as being equivalent to institutional units, as a consequence of which for example unconsolidated data on debt differ substantially across countries. Another issue relates to the recognition of captive units as institutional units or not.

## **V. Issues for information**

### **10. Government finance statistics**

#### **10.1 Towards enhancing international comparability of general government debt data (Lead: IMF)**

Differences in instrument and institutional sector coverage can have a significant impact on public deficit and debt data. To enhance international comparability of general government data the IMF Statistics Department has developed a matrix with a cascading approach for instrument coverage (D1-D4) and levels of government (GL1-GL5). The IMF is adopting this approach in the recently revised questionnaire to collect data from member countries for publication in the Government Finance Statistics Yearbook, which will also allow countries or regions to disseminate data using their national definitions of debt. Further, the Task Force on Finance Statistics (TFFS), the relevant international body for debt statistics, has agreed to adopt the same cascading approach for the presentation of government and public sector debt statistics in the publicly available World Bank/IMF/OECD Public Sector Debt Statistics database.

### **11. SDMX-initiative**

#### **11.1 SDMX Ownership Group for NA, BOP and FDI ( Lead: OECD)**

Much progress has been made to facilitate the exchange of national accounts data, using Statistical Data and Metadata eXchange (SDMX) format. The global data structure definitions (DSDs) are now publicly available on a Global SDMX Registry. The next step is to enhance the implementation of SDMX in national accounts worldwide, and how to support countries in their endeavours in this regard.

### **12. Distribution of income, consumption and wealth**

#### **12.1 Distribution of income, consumption and wealth (Lead: OECD)**

The most recent progress in arriving at information on the distribution of income, consumption and saving across household groups, consistent with macro aggregates of national accounts, will be discussed under this agenda item. The main objectives and timelines of the “OECD Expert Group on Distributional Information on Income, Consumption and Savings within the SNA” will be introduced, in addition to other initiatives, on this issue.