

Towards the
2025 SNA

Guidance Note AI.1 on Valuation Principles and Methodologies

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Meeting of the Advisory Expert Group (AEG) on
National Accounts

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Introduction

- As agreed, a **dedicated Task Team** is in the process of drafting Guidance Note (GN) AI.1 on Valuation principles and methodologies
- Excellent group of 15 -20 people, with **various backgrounds (SNA, SEEA, IPSAS, academics and research)**
- Up to now, **two meetings**, the last one on 20th of September 2022
- A **very preliminary version of the GN**, which was also the starting point for the discussion at the above meeting, has been provided for information
- The purpose of this presentation is to **highlight some of the perhaps slightly more controversial issues**

Main discussion points

Principles for valuation

- 2008 SNA: market prices
- Quite some discussion: market prices versus exchange values
- On the other hand, quite some consensus about the elements for valuing transactions:
 - *“the SNA does **not attempt** to determine the **utility** of the flows and stocks that come within its scope. Rather, it measures **the current exchange value** of the entries in the accounts in money terms, that is, the values at which goods, services, labour or assets are in fact exchanged or else could be exchanged for cash”*
 - *“**amounts of money that willing buyers pay to acquire something from willing sellers**; the exchanges are made between independent parties and on the basis of commercial considerations only, sometimes called **“at arm’s length”** .*
 - *prices paid or the exchange values “... should **not necessarily be construed as equivalent to a free market price**; that is, a market transaction should not be interpreted as occurring exclusively in a purely competitive market situation. In fact, a market transaction could take place in a monopolistic, monopsonistic, or any other market structure”*

Main discussion points

Principles for valuation

- Also hardly any discussion on the main elements for valuing positions:
 - *“For the balance sheets to be consistent with the accumulation accounts of the SNA, every item in the balance sheet should be valued as if it were being acquired on the date to which the balance sheet relates. This implies that when they are exchanged on a market, **assets and liabilities are to be valued using a set of prices that are current on the date to which the balance sheet relates** and that refer to specific assets”*
- Perhaps simply refer to “accounting value”?

Main discussion points

Valuing non-market transactions and market conditions

- **Highly relevant for valuing transactions (and positions) in a non-market context**, e.g. ecosystem services and assets
- **Should one use perfect markets as a starting point**, as for example assuming monopolistic markets could result in extreme and unrestricted valuations?
- Consensus: **Not prescribe certain market conditions**, other than the “arm’s length” criteria, but **make a distinction between whether or not information on similar markets is available**

Main discussion points

Valuation using market prices of similar products/assets

- Preference for being more explicit that the **markets** from which the prices are derived need to be **“representative”, i.e. not too thin and volatile, and/or not regulated** by, for example, government interventions
- Not only relevant for e.g. **services from owner-occupied dwellings**, but also for
 - ... **fixed assets**: PIM versus actual market prices of second-hand assets
 - ... **natural resources**: (NPV of) capital services versus (NPV of) actual rents
- **Quite some sympathy for this line of reasoning**, with the exception of one participant

Main discussion points

Valuation of ecosystem assets

- A considerable part of **ecosystem services** concern an **extension of the production boundary**
- If these services can be attributed to ecosystem assets, the **logical consequence is an extension of the asset boundary**
- More or less **consensus** on this issue, **provided that appropriate valuation methodologies are applied** for valuing the services

Main discussion points

Rate of return to capital and discount rate

- Currently, **hardly any guidance in the 2008 SNA**
- **GN WS.10 on valuation of mineral and energy resources** recommends to include **more explicit guidance** on the calculation of NPV of future resource rents, including discount rate, for example using existing guidance in SEEA
- One of the objectives of GN on valuation

Criteria for assessing adequacy of valuation methodologies

Some other, more minor, points raised

Questions to the AEG

The advice of the AEG is sought regarding the following issues:

- To provide **feedback on the points raised**
- To provide more detailed **written comments and suggestions on the draft Guidance Note** after the meeting

If interested, please feel welcome to join the discussion!

Thank you for your attention!

