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Recommendations to Resolve Minor Action Points

Recommendations to resolve minor action points[1]

By: Peter van de Ven (Lead Editor 2008 SNA Update)

Introduction

This note addresses some minor action points, for which it has been agreed, at the meeting of the Advisory Expert Group (AEG) on National Accounts, held on October 17 – 19, 2002, to come up with recommendations for updating the current guidance in the 2008 SNA. The full list of action points, which is included in this note, makes a distinction between action points derived from the assessment of the SNA Research Agenda (A), action points derived from the master-log of changes (B), and some other points raised at a later stage (C). All action points are listed in this note. However, recommendations are only made for the more minor issues, which concern the following:

- Action point A.5: Differences between SNA and IPSAS/IAS
- Action point A.7: Treatment of public-private partnerships
- Action points A.12 (in combination with B.11): Work-in-progress, transfer of ownership and capital services
- Action point A.16: Possible alternative treatment of the transfer of leased assets at the end of the lease period
- Action point B.2: Recording of share buybacks
- Action point B.3: Consistency of the treatment of e-money
- Action point B.4: Treatment of cash collateral
- Action point B.5: Recording of factoring and the measurement of output
- Action point B.6: Recording of subscription rights
- Action point B.9: The recording of negative interest rates and the measurement of FISIM
- Action point B.10: Recording of non-life insurance claims in the case of losses of capital assets

For the following action points, separate issues notes have been, or will be drafted:

- Action point A.6: Treatment of trusts and other types of funds as separate institutional units
- Action point A.8: Consistency in the application of the sum-of-costs approach
- Action point A.9: Consistency in measuring the output of central banks
- Action point A.10: Treatment of holding gains/losses and capital income in the measurement of insurance output
- Action point A.13: Address the current ambiguities and inconsistencies regarding the recording of social security and employment-related schemes, and the current guidance for constructive liabilities (see para. 3.34 and 3.40 of the 2008 SNA)
- Action point C.2: Treatment of (services derived from) the atmosphere

The remaining action points will be dealt with during the drafting of the relevant chapters (action points A.1, A.2, A.3, A.11, A.14, A.15, and C.1); they have already been resolved (action points B.1, B.7, and B.8); or another procedure has been agreed for its resolution (A.4).

[1] The author of this note would like to thank David Bailey (IMF) for drafting the text for action point A.7. Many thanks should also go to the following people for providing comments and suggestions: David Bailey (IMF) on action point A.16; João Carlos Fonseca (IPSAS Secretariat) on action point A.5; Celestino Giron (ECB) on action points B.3 and B.9; Pete Harper (Project Manager 2008 SNA Update) on various action points; Carl Obst (SNA Editorial Team) on various action points; and John Verrinder (Eurostat) on action point B.9.

Action point A.1: Providing broad guidance on price and volume measurement

No specific action required. While drafting, Brent Moulton (SNA Editorial Team), in cooperation with a small number of experts, will include relevant text in SNA 2025 chapter 18.

Action point A.2: Add text on nationality concept

No specific action required. While drafting, Patrick O'Hagan (SNA Editorial Team) and Peter van de Ven (Lead Editor 2008 SNA Update) will include relevant text in SNA 2025 chapters 23, 29 and/or 37. The drafting of the text for SNA 2025 chapter 23/BPM7 chapter 15 (Globalization) will be closely coordinated with BPM editors.

Action point A.3: Include text on partitioning of assets

This issue is first and foremost related to the delineation of the dual use of certain assets held by households, which are partly used for consumption purposes and partly used in the production of goods and services. No specific action required. While drafting, Carl Obst (SNA Editorial Team) and Peter van de Ven (Lead Editor 2008 SNA Update) will include relevant text in SNA 2025 chapters 14, 16 and/or 32.

Action point A.4: Provide guidance on the recording of crypto-assets without a corresponding liability designed to act as a medium of exchange

At the joint AEG/BOPCOM meeting, held on October 19 – 20, 2022, it was agreed to have a user consultation based on a short paper, to be drafted by the BPM and SNA Editorial Teams, in close cooperation with the drafting team of the relevant Guidance Note. The paper has been drafted and posted for global consultation during February – March 2023 and the outcomes of the consultation will be presented to the Joint AEG/BOPCOM meeting (March 27-29, 2023).

Action point A.5: Differences between SNA and IPSAS/IAS

As already agreed, it is considered important to include text on the broad alignment as well as on significant differences between on the one hand the SNA, and on the other hand the International Public Sector Accounting Standards (IPSAS) and the International Financial Reporting Standards (IFRS). A very concise, quite generic, text on the relationship between the SNA and these business accounting standards could be included in SNA 2025 Chapter 1, while SNA 2025 Chapters 28 on Non-financial corporations and Chapter 30 on General government and the public sector could provide more details, although this guidance should remain relatively short, basically summarising major differences of substance.

For the above purpose, the quite detailed analyses on the comparison of IPSAS with other statistical and accounting standards, as maintained by the secretariat of IPSAS, could be used as a starting point. Currently, the IPSAS secretariat maintains two dashboards, one containing a comparison between IPSAS and the Government Finance Statistics[2], and another one showing the main differences between IPSAS and IFRS[3]. In a meeting, held on December 14, 2022, the IPSAS secretariat agreed that they would be able to provide a table showing the relationship between SNA and IPSAS, thereby making references to the relevant SNA 2025 Chapters. They also agreed to triangulate the two existing tables,

[2] See https://www.ifac.org/system/files/downloads/IPSAS-ISS-Alignment-Dashboard-December-2022.pdf, and also Appendix 6 of the Government Finance Statistics Manual and Compilation Guidance (GFSMCG) 2014.

[3] See https://www.ifac.org/system/files/downloads/IPSAS-IFRS-Alignment-Dashboard-December-2022.pdf.

thus arriving at a direct comparison between the SNA and IFRS. References to the resulting tables could be included in the relevant SNA 2025 chapters, as proposed in the above. The IPSAS secretariat would also be very interested in supporting the drafting of these text elements.

Recommendation: It is proposed that in the course of 2023 concrete drafting proposals for inclusion in the SNA 2025 will be presented to the AEG, for their consideration (to be drafted by Brent Moulton (SNA Editorial Team), in close cooperation with João Fonseca (IPSAS secretariat)).

Action point A.6: Treatment of trusts and other types of funds as separate institutional units[4]

Sarah Barahona (OECD), Celestino Giron (ECB), Sanjiv Mahajan (SNA Editorial Team), Patrick O'Hagan (SNA Editorial Team), Pete Harper (Project Manager 2008 SNA Update) and Peter van de Ven (Lead Editor 2008 SNA Update) have drafted a separate issues note on the treatment of trust and other types of funds.

Action point A.7: Treatment of public-private partnerships

The recording of public-private partnerships (PPPs) has been addressed in Guidance Note D.8 on Public-private partnerships. However, this Guidance Note primarily focuses on the treatment of PPPs in the context of Foreign Direct Investment. It therefore was agreed to ask the Government Finance Statistics (GFS) community whether the current guidance in Chapter 22 of the 2008 SNA needs to be updated in view of the further clarifications and elaborations provided in the Eurostat Manual on Government Deficit and Debt, and the Guide to the Statistical Treatment of PPPs. In this respect, it should be noted upfront that PPPs can take many (evolving) forms, with the correct conceptual treatment depending on the form, as a consequence of which the guidance in the SNA should preferably remain fairly general, and not going too much into specific details.

After consultation with the GFS experts, the following four recommendations are put forward for consideration.

1 The current definition of PPPs in the 2008 SNA (paragraph 22.154), i.e., "*long-term contracts between two units, whereby one unit acquires or builds an asset or set of assets, operates it for period and then hands the asset over to a second unit*", is somewhat problematic, as (i) it appears to preclude contracts where the private partner renovates existing assets; and (ii) contracts where the assets are not transferred to the public partner at the end of the contract. It also is unspecific with regard to the purpose and nature of the operation of the asset. While there is no internationally agreed definition of PPPs, common features in definitions of PPPs include references to the provision of a public service or asset and performance-based payments. Examples include:

- A "*long-term agreement between the Contracting Authority and the Private Partner, for providing a public asset or service, in which the Private Partner bears significant risk and management responsibility, and remuneration is linked to performance*" (World Bank's 2019 Guidance on PPP Contractual Provisions).
- "*A long-term contractual arrangement for the provision of a public asset and related services in exchange for performance-based payments linked to the asset's availability and/or use and the delivery of the related services*" (EPEC-Eurostat's A Guide to the Statistical Treatment of PPPs).

Recommendation 1: To update the definition of a PPP in the statistical manuals and extend the introductory remarks to describe common PPP arrangements.

[4] Need to consult BOPCOM as well.

2 The current text in the 2008 SNA does not distinguish between those arrangements where payments are made by the public partner to the private partner for providing the public asset or service, and those arrangements where the private partner is not paid by government but instead charges a "user fee" for the provision of the public service or asset. This distinction is also made by Eurostat (who refers to the first scenario as PPPs, and the second one as "concessions"). The distinction can be important when it comes to assessing whether the balance of risks and rewards lies with the public partner or the private partner. There are also differences in the statistical recording between the two scenarios. If the public partner is considered the economic owner of assets in a concession-type of arrangement, then this would not only require an imputation of a loan (financial lease), but also the imputation of government revenue (which is notionally paying off that loan).

As a further explanation of the latter, one can add that in a "pure" concession arrangement there are no payments from the public partner to the private partner. Instead the private partner receives income from payments from the user of the asset (e.g. bridge tolls). In the scenario where the private partner is deemed to be the economic owner of the asset (due to bearing the majority of the associated risks and rewards), then the recording is relatively straightforward, with the construction, finance and maintenance costs all being in the accounts of the private partner as is the income from the services provided. No imputation is thus required.

Furthermore, in the scenario where the government partner is deemed to be the economic owner of a PPP asset, the standard approach is to record an imputed financial lease to offset the capital formation costs recorded in the government accounts. In the case of conventional PPPs there are "unitary payments", or similar, from the public partner to the private partner which can be treated as repayment of the financial lease - consisting of a principal component, interest component, and service component. However, in a concession-type of arrangement, no payments are made by the public partner to the private partner, as a consequence of which the accounting becomes more complex. One option, as suggested in the above, is to re-arrange the "fee" revenue from the use of the asset through government and then treat the offsetting re-arranged payments from government to the private partner as repayments of an imputed financial lease.

Recommendation 2: To differentiate between PPPs where payments are made by the public partner for the provision of the public service or asset, and those where the payments are received from users of the public service or asset; noting the different statistical considerations when assessing who is the economic owner of the asset and the different statistical recordings when the asset is deemed to be on the government balance sheet.

3 It is acknowledged that a decision has been made to maintain the current risk and reward approach to identifying the economic owners of fixed assets (as per Guidance Notes C.5.1 on Statistical impact of the change in treatment of operating leases in business accounting and C.5.2 on Economic ownership in the context of financial and operating lease transactions pertaining, in particular, to aircrafts), and not follow the latest international accounting approach for leases and service concession arrangements. However, it is considered helpful to users and compilers, if the SNA text could make reference to the accounting guidance (e.g., IPSAS 32) and highlight the key differences between the two frameworks.

Recommendation 3: To highlight differences between the international statistical standards and International Public Sector Accounting Standards for the recording of PPPs. This could be addressed in more detail in the paragraphs providing guidance on PPPs, and/or as part of the overview on the relationship between the SNA and IPSAS (and IFRS); see action point A.5.

4 Finally, the current text in the 2008 SNA (paragraphs 22.161 - 22.163) offers significant latitude when it comes to recording transactions related to a PPP contract. While a degree of latitude is warranted, due to the variety of PPP arrangements, it should be possible for the updated guidance to include preferred recording options for the transfer of assets at the end of a contract (in cases where

the private partner was the economic owner during the contract period; see also action point A.16) and for the recording of imputed transactions where government is the economic owner.

Proposal 4: Provide more definitive guidance on the statistical recording of PPP-related transactions by describing the preferred treatment (even if other treatments are acknowledged as being appropriate in some circumstances).

Action point A.8: Consistency in the application of the sum-of-costs approach

Pete Harper (Project Manager 2008 SNA Update) and Peter van de Ven (Lead Editor 2008 SNA Update) have drafted a separate issues note with the objective to arrive at an improved consistency in the application of the sum-of-costs approach for measuring output for own final use.

Action point A.9: Consistency in measuring the output of central banks

Peter van de Ven (Lead Editor 2008 SNA Update), in close cooperation with Celestino Giron (ECB), Pete Harper (Project Manager 2008 SNA Update) and John Verrinder (Eurostat), has drafted a separate issues note with the objective to look at the potential for addressing the current inconsistencies between the SNA and the ESA.

Action point A.10: Treatment of holding gains/losses and capital income in the measurement of insurance output

Peter van de Ven (Lead Editor 2008 SNA Update), in close cooperation with Pete Harper (Project Manager 2008 SNA Update), Benson Sim (UNSD), Herman Smith (UNSD) and Jorrit Zwijnenburg (OECD), has drafted a separate issues note.

Action A.11: Include guidance on accounting under conditions of high inflation

No specific action required. While drafting, Sanjiv Mahajan (SNA Editorial Team) and Peter van de Ven (Lead Editor 2008 SNA Update) will include, in a concise way, relevant text in (an annex to) SNA 2025 chapter 20, and possibly other chapters.

Action points A.12 (in combination with B.11): Work-in-progress, transfer of ownership and capital services

Regarding this item, two issues need further consideration. The first one relates to the recording of work-in-progress and the ownership transfer of incomplete fixed assets. The second one concerns the measurement of capital services for work-in-progress, to be broadened to the measurement of capital services of inventories more generally where the 2008 SNA Chapter 20 is not that clear.

The recording of work-in-progress and the ownership transfer of incomplete fixed assets

When it comes to the first issue, the 2008 SNA provides the following general guidance in paragraph 10.135 for the recording of work-in-progress:

> *Work-in-progress must be recorded for any output that is not complete at the end of the accounting period. This is a particular problem for output taking a long time to complete, such as construction. … The only exceptions to recording incomplete work as work-in-progress are*

for partially completed projects for which the ultimate owner is deemed to have taken ownership, either because the production is for own use or as evidenced by the existence of a contract of sale or purchase.

However, paragraph 6.140 of the 2008 SNA includes exceptions to this general rule, as follows (bolding by the author):

> *When a contract of sale is agreed in advance for the construction of buildings and structures,* ***but not for other production spreading over several periods****, the output produced each period is treated as being sold to the purchaser at the end of each period, that is, as a sale rather than work-in-progress. In effect, the output produced by the construction contractor is treated as being sold to the purchaser in stages as the latter takes legal possession of the output. It is recorded as gross fixed capital formation by the purchaser and not as work-in-progress by the producer. When the contract calls for stage payments, the value of the output may often be approximated by the value of stage payments made each period. In the absence of a contract of sale, however, the incomplete output produced each period must be recorded as work-in-progress of the producer.*

So, high value capital goods, such as ships, oil rigs, and heavy machinery, for which stage payments are made, are treated differently from buildings and structures with similar arrangements. Another exception for recording work-in-progress concerns the formation of capital for own final use (see the end of paragraph 10.135 above).[5] Similar guidance is provided by the ESA 2010, where paragraph 3.148 does recommends a transfer of ownership, and the recording of gross fixed capital formation, for <u>uncompleted structures</u> produced under a contract of sale agreed in advance or on own-account.

A number of issues can be distinguished when it comes to the recording of work-in-progress:

- First of all, it looks highly illogical to have a different recording for buildings and structures on the one hand, and other fixed assets on the other hand. In both cases, the same rules should be applied in the case of stage payments for the construction of capital goods taking a longer period of time than the reference period.
- Having said that, from a conceptual point of view, stage payments should not be the single criterion for recording a transfer of partially completed assets. The ownership of the partially completed assets should be effectively transferred, which could be evidenced by who owns the partially completed assets in case of, for example, bankruptcy of the producer. If this ownership is not effectively transferred, the stage payments should be regarded as advance payments (i.e., other accounts receivable/payable).
- Another point concerns the recording of the transfer of assets itself in the case of an effective transfer of ownership. Currently, the 2008 SNA prescribes the recording of gross fixed capital formation in the books of the purchasers. However, accounting for such a transfer as a transfer of work-in-progress looks more logical, since the asset has not yet been completed. Only after completion, gross fixed capital formation is to be recorded, at the expense of a negative entry of work-in-progress. Furthermore, although in the case of the production of fixed assets for own final use the issue of stage payments is irrelevant, one would still prefer to make a distinction between a partially completed asset, to be recorded as work-in-progress until the time of completion, instead of recording it directly as gross fixed capital formation, which is the current guidance of the 2008 SNA. In this respect, it should be noted that this alternative recording may have a

[5] Although not mentioned explicitly, one may assume that similar considerations are relevant for the investments in biological resources which yield repeat products, such as relevant livestock, orchards and vineyards.

significant impact on the time of recording gross fixed capital formation. For this reason, some countries may consider it relevant to separate out work-in-progress on buildings and structures.

The above describes the conceptually preferred recording. However, in practice, it may be quite difficult to make a delineation between work-in-progress and gross fixed capital formation. This is especially true for assets for which the completion of a single asset cannot be clearly established, such as in the case of research & development, or other intangible assets. In these cases, a direct recording of gross fixed capital formation, certainly in the case of production for own final use, seems the only way-out. Another problem concerns the delineation of work-in-progress for which the ownership is effectively transferred and those for which this is not the case. Here, the existence of stage payments could be used as a default for the existence of a transfer of ownership.

All in all, the following recommendations are proposed for the update of the 2008 SNA:

- **Recommendation 1: Include more generic guidance on the recording of work-in-progress, not restricting the transfer of ownership to buildings and other structures.**
- **Recommendation 2: Include guidance on the conceptually preferred recording of work-in-progress (only record a transfer in the case of an effective transfer of ownership; record partially completed structures as work-in-progress, also after a partial hand-over; record differences between stage payments and the effective transfer of ownership as other accounts payable/receivable).**
- **Recommendation 3: Include possible exceptions to the conceptually preferred recording, in view of problems around the practical implementation. It may be difficult, for example, to apply the criterion of effective ownership for transfers of work-in-progress (and the related recording of other account payable/receivable), as a consequence of which one would have to rely on stage payments as a proxy for transfer of ownership. Similar concerns may arise in trying to distinguish between the recording of work-in-progress for partially completed assets versus the recording of gross fixed capital formation for completed assets, in which cases it is recommended to record gross fixed capital formation as a default.**

The measurement of capital services for work-in-progress and other inventories

Assets contribute to the profitability of an enterprise, in the form of gross/net operating surplus. While gross operating surplus includes the compensation for the decline of the value of the asset due to its use in production (i.e., consumption of fixed capital), net operating surplus represents the net income derived from the use of the assets in production. The latter part of capital services can be determined endogenously, simply by comparing the resulting net operating surplus with the value of assets used, or it can be determined exogenously, by applying an exogenous rate of return to the value of capital invested (see paragraphs 20.29 and 20.30 of the 2008 SNA). The latter method for the determination of capital services is commonly applied in an accounting context, while the former method may also be used in a more analytical context, for example in research on developments in productivity.

Paragraph 20.3 of the 2008 SNA states explicitly that the assets contributing to production are not limited to fixed assets. Capital services are also related to the use of inventories, natural resources[6] and other non-produced assets used in production. Valuables are explicitly excluded, as they are not used in production, but primarily held as stores of value. One could argue about the latter, as some valuables are actually purchased, for example, to decorate an office building, and may thus be considered as being used in production. Moreover, in the case of, for example, museums, valuables in

[6] It should be noted that the 2008 SNA Chapter 20 already addresses the concept of capital services for land and other natural resources; see paragraphs 20.41 – 20.48). In view of the new guidance for natural resources, the relevant text would need to be updated.

the form of paintings and other collectibles, are definitely an input into the production of services provided by museums. But this is not the main issue of this note, which is the more general notion of capital services related to work-in-progress and other types of inventories. Although paragraph 20.35 of the 2008 SNA states that each of the asset categories will be discussed in more detail, it actually provides hardly any guidance on the estimation of capital services related to inventories, with the exception of a numerical example for work-in-progress for long term projects (paragraph 20.63). It is therefore recommended that the 2025 SNA contains more explicit guidance on capital services for inventories, along the lines of what follows below.

Work-in-progress and inventories are assets, for which sources of funding need to be generated. As such, the capital services from inventories would be equivalent to opportunity costs of the funds invested in inventories, or the exogenous rate of return times the average value of the inventories. Although inventories are not subject to consumption of fixed capital, one could argue that, apart from holding gains and losses, certain inventories also suffer from a decline in value because of some forms of downgrading (e.g., food items with a limited period of …). If this deterioration is part of "normal wear and tear", one could argue that this is also to be considered as part of the capital services provided by inventories. However, here it is proposed not to account for this form of "depreciation"[7].

When it comes to work-in-progress more specifically, stage payments could differ from the actual transfer of ownership. In these cases, one would observe a difference between the value of non-financial assets and the sources of funding needed. For example, the producer of the partially completed asset would have received funding from the one acquiring the asset at the time of completion. On the other hand, the enterprise acquiring the asset would have to set aside funds for the advance payments. This would result in an inconsistent contribution of capital services. However, since it has been recommended in the above, for practical reasons, to consider stage payments as being equal to a transfer of the partially completed asset, this inconsistency ceases to exist. Similar concerns may be relevant for other types of inventories, but here it is proposed to ignore this issue of other accounts payable/receivable.

More generally, one could argue that funds are also being locked in by the need to have working capital in the form of liquidity to run an enterprise, which would also give rise to capital services. However, it is not proposed to extend the concept of capital services accordingly, as one may assume that these liquid funds, especially the ones with hardly any income in the form of interest, will be limited to the extent possible.

Finally, a more general question concerns the choice of the (exogenous) rate of return. Here, it should be noted upfront that the measurement of capital services does not have an impact on main macro-economic aggregates. Capital services are primarily calculated for analytical purposes, such as multi-factor productivity estimates. As such, the SNA does not need to be that prescriptive, and the guidance could be restricted to a discussion of various ways to calculate capital services, similar to what is done in the 2008 SNA, where the choice of using an endogenous rate of return versus an exogenous rate of return are presented as alternative options, without providing explicit guidance on the preferred method. Having said that, the SNA 2025 could provide more guidance on the choice of an exogenous rate of return, in line with what has been recommended in Guidance Note WS.10 on Valuation of mineral and energy resources. In this Guidance Note, it is proposed to use the yields on long-term government bonds as a default for discounting future resource rents. It is proposed here to also include this advice when it comes to the measurement of capital services, without being very prescriptive. In

[7] In this respect, it can also be noted that, in line with the current guidance in the 2008 SNA, this "normal wear and tear" typically ends up in intermediate consumption, or has a negative impact on trade margins, as a consequence of which it does not end up in operating surplus.

this respect, it is also recommended to arrive at a clear and consistent guidance for the use of discount rates more generally.

The following is recommended for the guidance on capital services, to be included in chapter 17 of the SNA 2025:

- **Recommendation 4: Include explicit guidance on the measurement of capital services for inventories, in line with the above recommendations.**
- **Recommendation 5: Update the guidance on the measurement of capital services for natural resources, in line with the recommendations of the relevant Guidance Notes (WS.6 on Accounting for the economic ownership and depletion of natural resources; WS.8 on Accounting for biological resources; WS.10 on Valuation of mineral and energy resources; and WS.11 on Treatment of renewable energy resources as assets).**
- **Recommendation 6: Include additional discussion of the rate of return, in line with the above recommendations. In addition, it is recommended to provide clear and consistent guidance on the use of discount rates, in line with amongst others Guidance Note WS.10.**

Action point A.13: Addressing ambiguities and inconsistencies regarding the recording of social security and employment-related schemes, including the current guidance for constructive liabilities

A separate issues note, to be drafted by Peter van de Ven (Lead Editor 2008 SNA Update), in close cooperation with Patrick O'Hagan (SNA Editorial Team), Jorrit Zwijnenburg (OECD) and a Eurostat-representative, is still pending.

Action point A.14: Add clarifications on the treatment of costs of ownership transfer for different types of assets

No specific action required. While drafting, Peter van de Ven (Lead Editor 2008 SNA Update) will include relevant text, first and foremost in SNA 2025 chapters 11 and 14.

Action point A.15: Add clarifications on the distinction between maintenance and capital repairs for intangible assets

No specific action required. While drafting, Peter van de Ven (Lead Editor 2008 SNA Update) will include relevant text in SNA 2025 chapter 7.

Action point A.16: Possible alternative treatment of the transfer of leased assets at the end of the lease period

As noted in the SNA Research Agenda, both the case where a natural resource is leased for an extended period of time and the case of public-private partnerships (PPPs) are ones where the economic ownership of an asset effectively changes hands part way through its life. The terms of the arrangements are such that recompense from the initial economic owner for the change of ownership to the second economic owner is bundled into the arrangements for payments during the lease. According to current guidance, the transfer of the ownership has to be recorded as another change in the classification of assets and is not reflected as a transaction in the sequence of economic accounts. This is a deficiency that could be rectified by some elaboration of the concept of financial leasing.

The 2008 SNA actually discusses the example of a PPP, where the government becomes the legal and economic owner of the asset in question, without an explicit payment, at the end of the contractually agreed period. Regarding the recording of such a transfer, it states, in paragraph 22.161, that *"one general approach is for the government gradually to build up a financial claim and the private unit gradually to accrue a corresponding liability such that the value of both is expected to be equal to the residual value of the assets at the end of the contract period. Implementing this approach requires existing monetary transactions to be rearranged or new transactions to be constructed using assumptions about expected asset values and interest rates*". The transfer of the asset would then be recorded against the cancellation of the financial claim. Such an approach could also be applied in the case of long-term operational leases where the asset in question is transferred for free, or at a value below the market price of the asset, at the end of the lease period.

However, the 2008 SNA also realises that the above recording may be difficult to apply in practice. As an alternative approach, paragraph 22.162 recommends "to record the change of legal and economic ownership as a capital transfer". However, it is also noted that such an alternative recording "*does not reflect the underlying economic reality as well, but data limitations, uncertainty about the expected residual value of the assets and contract provisions allowing various options to be exercised by either party could make recording a capital transfer acceptable on pragmatic grounds*".

When it comes to the leasing of natural resources, one could also imagine that at some stage the economic ownership is (fully) transferred to the extractor/user of the natural resources, although the occurrence of such a transfer may be very limited in practice. Whatever the case, starting from the assumption that the split-asset approach will be recommended in the SNA 2025, the transfer of the remaining value of the asset, without any explicit payment, at the end of the contractual period is probably best represented by recording a capital transfer. Such a recording is more logical, because the payments of rents by the extractor to the legal owner are considered as a sharing of the resource rents derived from the exploitation of the natural resources, thereby assuming that these rent payments do not (implicitly) include a prepayment for the future transfer of the asset in question. One would end up with a similar recording in the case of applying the current guidance of the 2008 SNA.

The following recommendations are put forward for consideration:

- **Recommendation 1: From a conceptual point of view, the transfer of leased assets at the end of the lease period should be recorded as the building up of a financial claim, which is extinguished at the time of the transfer of the leased asset. Having said that, in line with the current guidance in the 2008 SNA, it is considered appropriate to record the transfer of the relevant assets as capital transfers. In certain circumstances, however, particularly where there is a high degree of certainty that the asset will be transferred and where the value of that asset at the point of transfer will be significant, a recording of building up a financial claim should preferably be applied.**
- **Recommendation 2: Furthermore, instead of only discussing the recording of transfers of leased assets in SNA 2025 Chapter 20 on General government and the public sector, it is recommended to also pay attention to this issue in SNA 2025 Chapter 27 on Contracts, leases and licenses, and, more concisely, in SNA 2025 Chapter 11 on Capital account.**
- **Recommendation 3: Finally, where relevant, it is recommended to provide some further clarifications on the possible transfer of the economic ownership of natural resources in SNA 2025 Chapter 27 on Contracts, leases and licenses.**

Action point B.1: Treatment of "free" digital products in extended accounts

This issue concerns the treatment of "free" digital products in extended accounts (or supplementary tables), for which initially three options were presented in Guidance Note DZ.4 on Recording and valuing "free" products in an SNA satellite account. This issue has been resolved in the latest update of the Guidance Note, by clearly recommending option 3.

Action point B.2: Recording of share buybacks

Annex 1 of Guidance Note F.2 on Asymmetric treatment of reinvested earnings contains a discussion on the recording of share buybacks. Although the 2008 SNA does not provide any concrete guidance on these buyback programmes, one may assume that share buybacks are currently recorded as purely financial transactions: the disposal of shares by the holders of the relevant equity, with a counterparty transaction basically liquidating share liabilities in the books of the relevant company.

However, Annex 1 of Guidance Note F.2 questions the appropriateness of such a recording, as share buybacks can often be considered as an alternative for distributing profits in the form of dividends. This question becomes even more relevant given the increasing tendency to not distribute profits in the form of dividends, but to have share buyback programmes instead. Actually, as noted in the annex, "*share buybacks have exceeded (for a number of years already) the dividends paid out by quoted companies in the US (exceeding one trillion dollars a year—close to five percent of GDP)*". All of this has a direct impact on major macro-economic aggregates.

For the above reasons, an alternative recording is discussed, by imputing a distribution of dividends with a concomitant recording of reinvestments in the financial account, similar to the recording of reinvested earnings for Foreign Direct Investment (FDI) enterprises. This imputation would be made in addition to the above financial transaction actually taken place.

In addition, Annex 1 of Guidance Note F.2 notes that share buyback programmes may also be introduced for other reasons than simply distributing current year profits. They may be used to distribute profits accumulated in the past, or they may be carried out with the purpose of distributing them back in the context of options programmes. It is also noted that such an alternative recording of share buybacks may provide incentives for manipulating primary income, by allowing, for example, governments to generate revenue at will by merely reselling shares (purchased in advance on the market) to the company during its buyback programme at a moment that is convenient. Although Annex 1 proposes a solution to these problems, its theoretical and practical implications (requiring inter alia that the imputed dividends related to share buybacks are "super dividend" tested) are still to be investigated.

All in all, it is proposed, after discussion with the leads of the Joint Financial and Payment Systems Task Team (FITT), that, although good arguments can be put on the table for considering an alternative recording for share buyback programmes, there are too many drawbacks for such a change in the ongoing update of the 2008 SNA. It would be much more preferable to pursue the goal of extending the recording of the reinvested earnings approach beyond FDI enterprises, as agreed in the context of the issues note on super dividends.

All in all, it is recommended not to change the current recording of share buybacks (i.e., a purely financial transaction, without the imputation of a distribution of dividends in combination with a reinvestment of these dividends) and to put this issue in the post SNA 2025/BPM7 Research Agenda, as part of the broader issue of extending the reinvested earnings approach.

Action point B.3: Consistency of the treatment of e-money

In relation to Guidance Note F.7 on Impact of FINTECH and other financial innovations, it was noted that there is a need to check the consistency of the treatment of e-money as being part of broad money between the SNA/BPM and the Monetary and Financial Statistics Manual and Compilation Guidance (MFSMCG) 2016. After discussion with representatives of the Joint Financial and Payment Systems Task Team (FITT), it showed that the main inconsistency regarding the definition of money in the international standards relates to a difference between the SNA and the European System of Accounts (ESA), less so between the SNA and the MFSMCG 2016. According to ESA 2010, deposits are restricted

to the relevant liabilities of monetary financial institutions (S.121 and S.122), while the SNA also allows for the recognition of deposits as a liability for other types of financial corporations. This issue may also be relevant for the recording of cash collateral.

When it comes to the definition of (broad) money, which is not a concept that is being defined within the SNA, the 2008 SNA already includes, in paragraphs 27.10 – 27.17, some reflections on this definition, basically allowing for some flexibility depending on country circumstances, in line with the MFSMCG 2016. As noted in paragraph 27.12, *"In the MFSM(CG), a country-specific concept of broad money as nationally defined is used. Although the specific components of broad money may vary across countries, in all cases the nationally defined concept is used to identify those financial corporations that issue liabilities included in broad money"*.

All in all, it is recommended to keep the current guidance as is. Obviously, when considered necessary, also in view of the updated Guidance Note F.10 on Treatment of cash collateral (see action point B.4), some additional clarifications could be added, while drafting.

Action point B.4: Treatment of cash collateral

In relation to Guidance Note F.10 on Treatment of cash collateral, the lead author would propose updates to the Guidance Note with a consolidated recommendation leaving the current treatment unchanged and suggesting slight draft amendments to incorporate the views expressed by the BOPCOM and AEG. This issue is directly related to the issue discussed under action point B.3, to which reference is made here.

Action point B.5: Recording of factoring and the measurement of output

This section discusses the recording of factoring, with a focus on the measurement of output. The following example is used for illustrative purposes.

1.	Nominal value of trade credit:	100
2.	Interest (one year period on average)	2
	Potentially to be split up between:	
	o SNA interest (= reference rate)	1
	o Implicit service charge	1
3.	Reservation for possible credit defaults (reserve)	6
4.	Compensation for administrative costs	2
5.	Cash payment by factor to supplier (= 1 – 2 – 3 – 4)	90

Using the above example, business accounting rules prescribe the following recording in the books of the supplier (with similar counterparty entries in the books of the factor)[8]:

- Cash (debit) 90
- Explicit fees (debit) 2
- Interest (debit) 2
- Amounts due from factor = reserve (debit) 6
- Accounts receivable (credit) 100

In the case of the materialization of the credit default risk, an additional entry would need to be made in the books of the supplier, as follows:

- Allowance for bad debts (debit) 6
- Amounts due from factor (credit) 6

In the accounts of the factor, these allowances would normally lead to a depreciation of both the accounts receivable and the amounts due to supplier, in the case the relevant positions are valued at fair value, to be recorded as follows:

- Amounts due to supplier (debit) 6
- Accounts receivable (credit) 6

From the Guidance Note F.14 on Treatment of factoring transactions, one can derive that the following transactions are to be recorded in the books of the factor (option 2.4).

- Purchase of trade credit (reclassified as loans) 100
- Payment of cash -90
- Output (fee) 4
- Cash collateral liability (reserve) 6

The first and most important conceptual issue concerns the inclusion, or exclusion, of the reserve for possible credit defaults, or alternatively the allowance for bad debts[9], in measuring output. Should output simply be calculated as the difference between the nominal value of the trade credits and the actual payment by the factor (100 *minus* 90 = 10), or should the reserve for possible credit defaults be excluded, thus arriving at an output of 4 (100 *minus* 90 *minus* 6) as recommended in the Guidance Note?

In relation to this issue, after further discussion with the authors of the Guidance Note, it has been agreed that the Guidance Note could be more clear on the treatment of the reserve, by explicitly stating that the reservations for possible credit defaults are to be excluded from the calculation of output, at least for conceptual reasons.[10] Being a claim from the supplier towards the factor, if the credit default materializes a cancellation of the reserve will be recorded as part of other changes in

[8] The business accounting entries presented below first and foremost relate to recourse factoring. In the case of non-recourse factoring, one may assume that the accounts receivable are depreciated immediately, before entering into the transaction with the factor. If the actual non-payments of accounts receivable show to be smaller/larger than what has been agreed in advance, this would represent a gain/loss for the factor, unless compensation has been agreed in advance. All these complexities have not been addressed in this short note, as they do not affect the main line of reasoning to a significant degree.

[9] Please note that this credit default risk is also an element of interest, representing both the time value of money and the credit default risk. At the same time, the larger the reserve collateral, the lower the risk component of interest.

[10] One could also put forward other conceptual arguments when it comes to excluding credit default risk, be it collateralized or not, from the measurement of output, in the sense that this risk element is first and foremost to be considered as a kind of revaluation while taking over the relevant trade credits, and not to be considered as an implicit interest yield element, which may enter into the calculation of output via FISIM-type of calculations; see also below. Furthermore, one could also argue that this credit default risk element has nothing to do with running day-to-day operations.

assets. If the default does not materialize, the reserve is eliminated via a transaction against the cash received by the supplier at maturity.

This brings us to the other element which may give rise to discussion: how to deal with the compensation for interest? In the Guidance Note, it is stated that this part should not be considered as interest, because this “income element” is paid by the supplier, while the claim is against the debtor (purchased). Classification of this “income element” of the factor as interest means that one would record interest without a corresponding claim. On the other hand however, business accounting recommends the recording of interest in the books of both the factor and the supplier.

From a conceptual perspective, one could also argue that due to the accounts receivable being “transacted” between the supplier and the factor, the implicit interest element becomes apparent, and is directly accrued by the factor. A line of reasoning supportive of this is that the nominal value of the trade credit (especially in the case of long-term trade credits) is actually not equal to 100, but that it is equal to the future down-payment discounted by the market interest rate; see, for example, paragraph 7.30 of the Government Finance Statistics Manual and Compilation Guide (GFSMCG) 2014, where more detailed guidance is provided on the calculation of nominal values. This difference, representing the time value of money and residual counterpart risk after considering the reserve, materializes in the transaction between the supplier and the factor. Under this recording, interest would be accruing from the debtor to the factor, who are the actors tied by the loan after factoring. However, such a recording would also require changing the original output which was the source of the trade credit, from 100 to 98, which would lead to a more complicated recording with a higher potential for inconsistencies in the recording of transactions for the original purchaser of goods and services, the supplier of the relevant goods and services, and the factor.

Whatever the case, if one would assume a recording of interest, the next question is whether FISIM should be calculated. Here it is argued that factoring is quite different from the more traditional type of intermediating funds, which commonly refers to the intermediation between depositors and borrowers, thereby explicitly excluding claims like other accounts receivable/payable. This line of reasoning would still apply, even though it has been recommended in Guidance Note F.14 to reclassify the trade credits to loans.[11] Another line of reasoning leading to the same conclusion is that all factor output is charged to the supplier, and that the debtor’s charges only cover the interest component.

Looking at the feasibility of measuring output for factoring services, it is important how all the relevant transactions and positions are recorded in the books of the factor and the supplier. As shown in the above, business accounting rules prescribe the separate recording of the three elements which one would like to distinguish for conceptual reasons: fees, interest (to be recorded as such), and reserve. If this prescribed recording is indeed applied in the business accounts, information should be available to estimate output according to the preferred method, whereby output is basically restricted to the explicit fees that are being charged.[12]

However, in the situation in which company records do not allow for a distinction between the various income elements according the conceptually preferred methodology, and assuming that information on the reserve is generally available, one could indeed agree on the convention recommended in the Guidance Note[13], under the condition that the factoring services are basically restricted to short term financing arrangements with low amounts of (implicit) interest, including credit default risks. However,

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[11] Please note that, looking at annual reports of factoring companies, the relevant amounts are typically recorded as other accounts receivable.

[12] The extent to which the preferred recording is followed in practice should be further investigated.

[13] That is, output is valued as the difference between the redemption value of the trade credits subject to the factor arrangement less the cash paid or due by the factor.

in situations in which the factor receives a relatively high compensation for risk-free interest (for example, due to conditions of high inflation) and/or possible credit defaults, this convention could lead to unacceptable high amounts of output for the factor and should preferably not be applied. In such cases, compilers should seek to estimate a value for risk-free interest and/or credit default risk to be deducted from the value of output, or alternatively, compilers may consider estimating output as the sum-of-costs.

All in all, after further consideration, the following recommendations are made:

- **Recommendation 1: It is recommended to slightly adapt the Guidance Note F.14 on Treatment of factoring services by adding more details on the conceptually preferred recording, and also to add further guidance in the updated versions of BPM and SNA on the conceptually preferred recording and the recommended convention, and to explain that in special circumstances of very high inflation and credit risk environments the convention may not work well. In respect of the latter, one may also want to add more general guidance on the measurement of output under conditions of high inflation, when trade credit cannot be considered as a good proxy for the measurement of output of the supplier, while the measurement of output for factoring services would need to follow the conceptually preferred recording regarding the exclusion of interest and credit default risk, along the lines in the above.**
- **Recommendation 2: It is also recommended, for conceptual reasons, to exclude possible financial services indirectly measured (FISIM) from the estimation of factoring output.**
- **Recommendation 3: Finally, it is recommended to further investigate the actual business accounting practice, including available details from annual reports of factoring enterprises.**

Action point B.6: Recording of subscription rights

In relation to Guidance Note F.16 on Subscription rights, concerns were expressed by the AEG about treating subscription rights as equity, which may need to be resolved. After discussion with representatives of the joint Financial and Payment Systems Task Team (FITT), it is recommended, in line with the discussions at the 16th meeting of the Advisory Expert Group (AEG) on National Accounts, held on 12 – 14 July 2021, to align the guidance on the recording of subscription rights to the recommendations in Guidance Note F.16 (i.e., classifying them as part of equity), while explicitly recognising that these rights have expiry dates, which make them different from the typical equity.

Recommendation: It is recommended to add clarifications on the recording of subscription rights, as equity, including clarification on the difference in characteristics regarding expiry dates.

Action point B.7: Consistency of the guidance on the recording of (digital) intermediation services

This issue concerns the question whether the recommendations for recording (digital) intermediation services in Guidance Note C.4 on Merchanting and factoryless producers are fully consistent with the recommendations in Guidance Note DZ.9 on Incorporating digital intermediation platforms in the system of national accounts. This action point has been resolved, as after checking it showed that the recommendations are indeed consistent with each other.

Action point B.8: Recording of travel packages

This issue relates to the concerns about the recommendations in Guidance Note C.7 on Treatment of travel packages, health-related travel, and taxes and fees on passenger tickets, as expressed by some members of the Advisory Expert Group (AEG) on National Accounts. After further discussion and consideration, it has been agreed to implement the recommendations, despite the concerns raised. This action point has thus been resolved.

Action point B.9: The recording of negative interest rates and the measurement of FISIM

As noted in SNA News and Notes 39/40, after extensive consultation of the Advisory Expert Group (AEG) on National Accounts, it was decided to treat negative interest as negative receipts of interest. "*However, the AEG noted that the decision should be seen as a practical short-term solution to what may be a temporary phenomenon caused by extraordinary monetary policy, and that further research is needed to improve accounting guidance on this issue. Regarding implications of the decision on the calculation of FISIM, the AEG noted the need to review the appropriate methodology and/or reference rate to use*". Since the discussion at the 11th meeting of the AEG, held on 5 – 7 December 2017, and the subsequent publication of the results in SNA News and Notes 39/40, no further research has been done. This raises the question how to move forward on these issues. As these seems to be no appetite for changing the guidance on negative interest, this first and foremost concerns the measurement of FISIM.

It should be stated upfront that linking the occurrence of negative interest rates to the issue of measuring FISIM is in some regards unnecessary. The question of measuring FISIM is often guided by the need to avoid negative FISIM on either loans or deposits. Apart from potential cross-subsidising, provisions of negative amounts of services is generally considered as an anomaly. However, for sure, the occurrence of negative FISIM is not restricted to periods of negative interest rates, although one may have observed negative FISIM on deposits.

In respect of this more general issue of measuring FISIM, including the need to avoid negative FISIM, the guidance on the use of reference rates, as provided by the AEG in the aftermath of the Great Financial Crisis is considered very important. At its 8th meeting, held on 29 – 31 May 2013, the AEG arrived at the following conclusions:

> *(b) For estimating imports and exports of FISIM, FISIM should be calculated by at least two groups of currencies (national and foreign currency).*
>
> *…*
>
> *(d) Liquidity transformation services should remain part of FISIM and a single reference rate should be used to determine FISIM.*
>
> *(e) The calculation (definition) of the reference rate should be determined according to national circumstances, using preferably any of the following approaches:*
>
> *i. a reference rate based on a single observable exogenous rate for a specific instrument, such as interbank lending rates;*
> *ii. a reference rate based on a weighted average of observable exogenous rates of maturities with different terms (weighted by the stock of loans and deposits in each maturity); or*
> *iii. a weighted average of the endogenous interest rates on loans and deposits.*
>
> *(f) Considerable care should be taken in determining FISIM estimates during periods of volatile movements in reference rates and when liquidity markets begin to dysfunction. These periods may be characterised by negative FISIM estimates, particularly for depositors, but also for*

borrowers. In this respect, encouraged countries to review the applicability of the underlying reference rate for that period to calculate FISIM when such incidences occur.

Regarding the inclusion, or exclusion, of credit default risk, the AEG "*could not reach an agreement on the conceptual merits of either excluding or including credit default risk (CDR) in the calculation of FISIM and recommended that research continues in this area, both to further develop the conceptual arguments to either include or exclude CDR in the calculation of FISIM, and in the case of the excluding CDR to develop methods and data that could support a possible exclusion of CDR in the future*".

The AEG also agreed on the need to do research on the following topics:

(a) developing more clarity regarding FISIM(-related) references in the 2008 SNA, especially in relation to treatment of risk and definition of financial services;

(b) further develop the conceptual arguments to either include or exclude CDR in the calculation of FISIM and in the case of excluding CDR to develop methods and data that could support a possible exclusion of CDR in the future;

(c) consider possible hybrid approaches to price and volume measurement;

(d) further develop the 'costs of funds' approach to determine the reference rate, and further develop possible alternative approaches (vintage reference rate);

(e) consider the financial instruments and units scope of FISIM; and

(f) the connection between the recommendations on implementing FISIM and the definition of income.

Unfortunately, however, no further work has been on any of these issues, and it is also considered too late in the process to start such research in the context of the 2008 SNA. Having said that, the conclusions by the AEG, at its 8th meeting, are considered extremely helpful in further clarifying the measurement of FISIM. An important recommendation in this regard is the use of a single reference rate, instead of two reference rates (i.e., one to be applied to short-term loans and deposits and another one to be applied to long-term loans and deposits), and thus not excluding maturity transformation from the calculation of FISIM. The recommendation to continuously review, in special circumstances, the applicability of the underlying reference rate could provide additional incentives on the need to avoid incidences of negative FISIM.

Recommendation: All in all, it is recommended to clarify the calculation of FISIM along the lines agreed at the 8th meeting of the AEG. This would not only relate to the choice of reference rates for domestically produced/consumed FISIM, but also for the guidance provided on the reference rates for imports and exports of FISIM. The same holds for the guidance provided on the volume measurement of FISIM.

Action point B.10: Recording of non-life insurance claims in the case of losses of capital assets

At its 7th meeting, held on 23 – 25 April 2012, the Advisory Expert Group (AEG) on National Accounts discussed the issue of recording non-life insurance claims, as capital transfers, in the case of catastrophic events. The discussion mainly focussed on what constitutes a catastrophic event. It was agreed that "*that a catastrophe is an exceptional event and that the classification of claims arising from a catastrophe should be determined at the national level*" recognising that "*this approach could lead to inconsistencies in the recording of international transfers, and that these should be resolved on a case by case basis where possible*". The AEG also noted that "*further clarification is needed on*

whether capital transfers should only be recognised for claims related to the loss of capital assets in the event of a catastrophe, and requested the ISWGNA to investigate the issue".

Furthermore, in the context of distributional national accounts, it has also been discussed how to deal with one-off transfers from non-life insurance (and lottery winnings), which may have a significant impact on the income of individual households, and may not be considered by these households as part of disposable income. As Guidance Note WS.2 on Distribution of household income, consumption and wealth states: "*it may indeed be relevant to record non-life insurance benefits and winnings from gambling as capital transfers and the premiums and lottery tickets as consumption*". In the end, however, after testing relevant proposals, it has been decided not to change the recording in distributional national accounts, and not to deviate from the recording at the macro-level.

Looking at the current guidance of the 2008 SNA, paragraph 17.40 states that it makes sense to record claims arising from catastrophic events as capital transfers, using the rationale "*that many of the claims will relate to destruction or serious damage to assets such dwellings, buildings and structures*". However, it is also noted that *"damage corresponding to a normal level of claims is covered by, for example, consumption of fixed capital or losses from inventories*". In these latter cases, losses due to normal or recurrent accidental damage are included as cost elements, and therefore "*captured as current expenditure elsewhere in the system*".

Looking in more detail at the recommended recording of non-life insurance claims arising from catastrophic events, the current guidance of the 2008 SNA only refers to "*assets such as dwellings, buildings and structures*". This raises the question how losses of inventories, fixed assets other than dwellings, buildings and structures, inventories, non-produced non-financial assets, and also valuables should be recorded. There seems to be no valid argument for excluding these types of assets. A recording of relevant non-life insurance claims as capital transfers would be the most logical treatment for reasons of consistency.

Another issue which in the past may not have been considered in full detail concerns the impact of recording non-life insurance claims due to catastrophic events as capital transfers on the recording of reinsurance. What constitutes an exceptional event for insurers at the national level may be business-as-usual for a large worldwide operating reinsurance company. As a consequence, one may end up with a national insurer recording claims due to a catastrophic event as capital transfers, while the related claims received from the reinsurer are recorded as current transfers. Disposable income and saving of the national insurer would thus be positively affected by a catastrophic event, which is very counterintuitive. The only solution to avoid such outcomes is to resolve these issues on a case by case basis, as already recommended in the current guidance. A relatively strict delineation of catastrophic events would definitely support such efforts.

A special case when it comes to the recording of non-life insurance claims for losses due to catastrophic events concerns the claims arising from damages to consumer durables. Should one also record these claims as capital transfers, although no assets have been recognised in the system of national accounts? In this respect, it can be noted that consumer durables are not only special case when it comes to claims due to catastrophic events, but also more generally for claims which are not related to catastrophic events. While one can argue that in the case of fixed assets and inventories, the related "normal" damages are covered by consumption of fixed capital and losses from inventories, thus not affecting income because current costs of damages and the receipts of claims cancel out, this line of reasoning for recording claims as current transfers cannot be applied to "normal" losses of consumer durables. The claims will affect income without having a concomitant expenditure reversing this increase of income. However, it is important to note that the expenditures related to replacing the relevant losses are recorded as final consumption. A recording of the claims as capital transfers would thus lead to an inconsistency between disposable income and final consumption expenditure, while a recording as current transfer would at least not affect saving of households. So, there seems to be no reason to change the recording of the related non-life insurance claims. Moreover, even if consumer

durables would be recorded as part of capital formation, one may assume that normal levels of accidental damage would feed into consumption of fixed assets related to these consumer durables, thus negatively affecting income levels and compensating for the claims received.

The same line of reasoning as the one above for "normal" levels of claims can also be applied for non-life insure claims due to catastrophic events. However, from a feasibility perspective, it may be difficult to differentiate between catastrophic damages to non-financial assets and inventories on the one hand, and similar damages to consumer durables on the other hand. This would require further details on claims arising from insurance policies of households as consumers, so excluding those related to non-life insurance of dwellings and unincorporated enterprises. Unless this information is available, it is recommended to treat all claims arising from catastrophic events as capital transfers as the default option.

The above lines of reasoning on the recording of non-life insurance claims may become less relevant when looking at the income of individual households, as done in the case of distributional national accounts. In this case, one may want to arrive at an income concept which is not prone to income shocks as a consequence of one-off non-life insurance claims (and lottery winnings), certainly when it comes to the classification of households into income quintiles/deciles, and it is clear that, as argued in the above for the macro-level, that in the case of damage to dwellings not due to catastrophic events, claims and consumption of fixed capital cancel out. The same holds for claims for damages to consumer durables.

On the other hand, however, when it comes to groupings of households, the argumentation for classifying non-life insurance claims as either current or capital transfers still holds, certainly when the groups are large enough for the average claims coming close to the national average. Also the consistency between disposable income and final consumption in the case of consumer durables also needs to be taken into consideration at the micro-level. The latter is also noted in Guidance Note WS.2, where it stated that "*for the purpose of compiling distributional results, it is deemed relevant if countries could show results on consumer durables as a separate (of which) subcategory*". As noted above, the outcomes of the testing of recording non-life insurance claims, as capital transfers, in the case of distributional national accounts showed that there was no appetite for changing the recording. It was preferred to retain a recording which is consistent with the recording at the macro-level.

All in all, the following is proposed as a way forward:

- **Recommendation 1: It is recommended not to change the current guidance for recording non-life insurance claims in the sequence of economic accounts of the SNA, apart from extending the recording of capital transfers in the case of catastrophic events to claims related to inventories and non-financial assets other than dwellings, building and structures.**
- **Recommendation 2: In addition, it is recommended to add clarifications on the recording of reinsurance claims which are related to catastrophic events.**
- **Recommendation 3: It is also recommended to add clarifications on the recording of claims in the case of damage to consumer durables, whether or not these are arising from catastrophic events.**
- **Recommendation 4: To arrive at a consistent recording of non-life insurance claims due to catastrophic events, also in view of avoiding inconsistencies in international transfers, it is recommended to apply a relatively strict delineation of major catastrophic events.**
- **Recommendation 5: If needed, it is recommended to cover more details regarding the treatment of non-life insurance in the context of distribution national accounts in SNA 2025 Chapter 32 on households and/or Chapter 34 on measuring well-being.**

Action point B.11: Addressing the current inconsistency in the recording of GFCF in buildings and structures versus machinery and equipment

See action point A.12.

Action point C.1: Including guidance on using multiple exchange rates

No specific action needed. While drafting, Patrick O'Hagan (SNA Editorial Team) and Peter van de Ven (Lead Editor 2008 SNA Update) will include relevant text in SNA 2025 chapters 8 and 33, and possibly also include an annex with more detailed guidance. The relevant guidance will be closely coordinated with the BPM editorial team.

Action point C.2: Treatment of (services derived from) the atmosphere

A separate issues note on the treatment of (services derived from) the atmosphere in a national accounts context, to be drafted by Carl Obst (SNA Editorial Team) and Pete Harper (Project Manager 2008 SNA Update), is still pending.