Towards BPM7 and 2025 SNA

Issues Note on Resolving Outstanding Issues

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Introduction

- During discussions, including, for example, the outcome of the global consultation on the consolidated list of changes to the 2008 SNA, and during the process of drafting chapters, **new issues may pop up**
- **Not expected to be major issues, mainly items which may need clarification**
- At regular intervals, **the AEG and, if relevant, the BOPCOM will be consulted on the recommendations to resolve these outstanding issues**
- This issues note contains the first batch of issues:
  - **interest on other accounts receivable/payable**
  - treatment of **crypto funds** and other funds investing in non-financial assets; and
  - treatment of **individual pension trusts**
- In addition, an issue note on the treatment of **government trusts** will be drafted (end of November)
- In addition, further discussion needed on the treatment of **provident funds**

Interest on other accounts receivable/payable

- **The 2008 SNA is unclear regarding interest on other accounts receivable/payable**:
  - 7.113: *Interest is a form of income that is receivable by the owners of certain kinds of financial assets, namely: deposits, debt securities, loans and (possibly) other accounts receivable for putting the financial asset at the disposal of another institutional unit.*
  - 17.236: *As far as possible, there should be no interest arising on other accounts receivable or payable since the amounts outstanding that give rise to interest payments should be classified as loans. In practice this might not always be possible in which case there will be some amounts of interest shown under this instrument also.*
  - 13.84: … *Interest due on other accounts receivable or payable may be included here* (i.e., in the relevant balance sheet position).
  - 3.144: *A less obvious mingling of transactions occurs when the provision of an asset and the related money payment or payments do not take place simultaneously. When the time gap becomes unusually long and the amount of trade credit extended is very large, the conclusion may be that implicitly an interest fee has been charged. In such extreme cases, the actual payment or payments should be adjusted for accrued interest in order to arrive at the correct value of the asset transferred. Such adjustments are not recommended for normal trade credit.*

Interest on other accounts receivable/payable

- From a **conceptual point of view**, it seems **illogical to exclude the possibility of interest accruing on other accounts receivable/payable**, certainly in times of high inflation and interest rates => may lead to a misrepresentation of output

- From a **feasibility point of view, recording of interest is more problematic**, mainly because interest is often not charged explicitly, and may not be recorded as such in the books of the units; the same may hold for discounts given in the case of immediate payment, which could also be looked upon as a form of interest

Interest on other accounts receivable/payable

- **Recommendation to follow the logic of para. 3.144 of the 2008 SNA**, i.e., to adjust the actual payment(s) for the accrued interest in cases the time gap becomes unusually long and the amount of trade credit extended is very large, adding that such a recording becomes more relevant in periods of high inflation and interest rates
- **Recommendation to remove the guidance, as included in para. 17.236 of the 2008 SNA, on the reclassification of other accounts receivable/payable to loans** in the case interest is accrued on the financial instrument, which will anyhow be very difficult to apply in practice
- It is acknowledged that in practice it may **not be that easy to implement** the above guidance, and that the recommended recording may **only be feasible in cases where interest is explicitly charged**; nevertheless, it is recommended to provide guidance which is considered **more appropriate from a conceptual point of view, thereby recognising the practical problems**

Treatment of crypto funds and other funds investing in non-financial assets

- **Crypto funds** invest in a **portfolio of digital tokens and cryptocurrencies**; similar to real estate investment funds (REITs), the portfolio may predominantly consist of (non-produced) non-financial assets
- However, different from REITs, it is **not to be expected that the majority of the services produced by these funds relates to the production of non-financial services** using the input of the relevant non-financial assets => **classification as financial corporations**, more specifically non-MMF investment funds
- For the same reasons, it is recommended to **treat funds investing in, for example, gold and other valuable metals, or investing in bottles of high-end wines or whiskies, as financial corporations**
- Investment **funds primarily investing in real estate outside the country of residence should also be treated as financial corporations**, as their income is recorded as investment income, for technical reasons, if not for legal reasons

Treatment of individual pension trusts

- In Australia, for example, the **government introduced compulsory superannuation** in 1991, to provide income in retirement; a specific part of this policy was the Superannuation Guarantee Act 1992, which created an **obligation for employers to pay a portion of employees' income to superannuation funds**
- Around, 1999, once again **under government encouragement**, saw the **creation of self-managed superannuation funds (SMSFs) for self-employed persons**, to establish and manage funds for their retirement; currently many groups of individuals and small business have SMSFs
- All superannuation funds, including SMSFs, must elect to be **regulated by the Superannuation Industry (Supervision) Act 1993, to receive concessional taxation treatment on contributions**
- Question is how to treat these trusts, as **social insurance or as privately managed investment portfolios**, with major impact on recording of transactions and positions involved, as well as on possible consolidation with the individual beneficiary

Treatment of individual pension trusts

- **It is recommended to treat these types of individual pension trusts as part of social insurance**:
  - Provide insurance against **social risks**
  - At least **one of the three conditions for delineating social insurance is met**: *The scheme is a collective one operated for the benefit of a designated group of workers, whether employees or self-employed persons, which may also include persons temporarily without employment, participation being restricted to members of that group*
  - **In the case of trusts set up by employees, the third condition may also be met**: *An employer makes a contribution (actual or imputed) to the scheme on behalf of an employee, whether or not the employee also makes a contribution*
  - Importantly, **arrangements do not necessarily have to be compulsory**; encouragement may be sufficient: *Social insurance schemes are essentially schemes in which workers are obliged, or encouraged, by their employers or by general government to take out insurance …*

Treatment of individual pension trusts

- **It is recommended to treat these types of individual pension trusts as part of social insurance**:
  - **Additional criteria to delineate social insurance schemes from individual (life) insurance are also met***:*

    *… **collective arrangements** which provide policies, for certain industries or professions, **with a strong resemblance to similar arrangements organized by employers or government**. These schemes may, or may not, be **encouraged by government**; in the former case, this would strengthen the case for a classification as social insurance. In addition, to qualify as social insurance, generally **separate institutional units** should be established, which are **subject to regulation or supervision in line with or similar to other social insurance schemes**. In the case of pension-related schemes, an additional criterion for the qualification as social insurance is that **accumulated contributions are set aside for retirement income***

Questions to the AEG

To endorse the **recommendations for the three outstanding issues**, in particular:

- **Interest on other accounts receivable/payable**:
  - To adjust the actual payment(s) for the accrued interest in cases the time gap becomes unusually long and the amount of trade credit extended is very large, adding that such a recording becomes more relevant in periods of high inflation and interest rates
  - To remove the guidance on the reclassification of other accounts receivable/payable to loans in the case interest is accrued on the financial instrument, which will anyhow be very difficult to apply in practice
- **Treatment of crypto funds and other funds investing in non-financial assets**:
  - To treat crypto funds and other funds investing in non-financial assets, which are not used for the production of non-financial services, as financial corporations, as either money market investment funds or as non-MMF investment funds, depending on the terms of the invested instruments
  - To treat funds investing in real estate abroad as financial corporations

Questions to the AEG

To endorse the **recommendations for the three outstanding issues**, in particular:

- **Treatment of individual pension trusts**
  - To treat similar arrangements to those in Australia for SMSFs as social insurance type of schemes
  - To include relevant guidance in more generic terms in the 2025 SNA

In addition, the AEG may have knowledge of **other (potential) outstanding issues that they would like to put forward for consideration**

Thank you for your attention!