

Towards BPM7 and 2025 SNA

Outcome of Global Consultation on the Consolidated list of changes to the 2008 SNA

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16 – 18 October 2023

Introduction

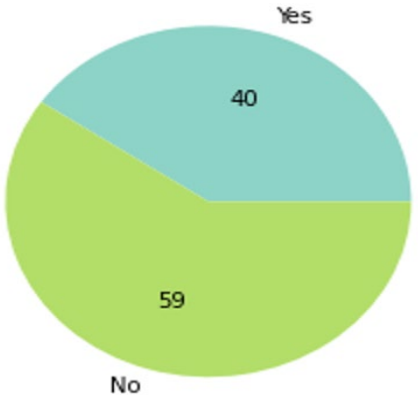
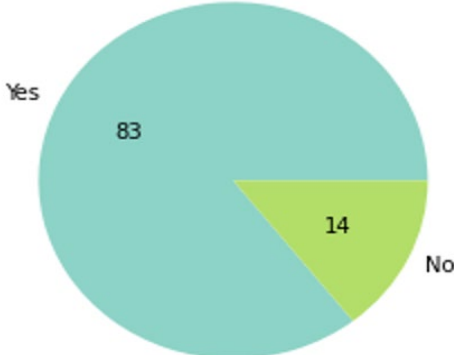
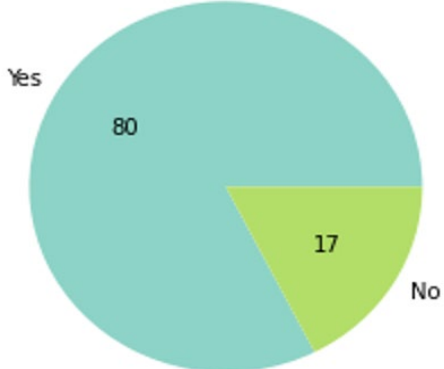
- **Changes to the 2008 SNA** have been derived from Guidance Notes, Issue Notes, SNA News & Notes, guidance provided in past AEG-meetings, etc.
- **Master-log: spreadsheet with summaries of all recommendations for changing and clarifying the 2008 SNA**, cross-classified with the chapters of the 2025 SNA, thus providing an overview of the impact of the changes on (sub)sections of the 2008 SNA and the new/significantly revised chapters
- Starting point for drafting a **more accessible document** on the changes to the 2008 SNA, **which has been put forward for global consultation** on the 16th of August 2023, with the 15th of September 2023 as the closing date for responding (later extended to the 28th of September 2023)
- Now, **assessment of the feedback** provided in the global consultation
- **Input for updated document for consideration and formal endorsement by the United Nations Statistical Committee (UNSC) in its March 2024 meeting**

Overview of the presentation

- Response to general questions
- Requests for clarifications
- Individual disagreements
- Other (minor) issues of relevance
- Main issues:
 - Mineral and energy resources
 - Biological resources
 - Data and marketing assets
 - Sum-of-costs method
- Way forward: general reflections
- Way forward: procedure and timeline
- Questions to the AEG

Outcome of global consultation: overview

- Q1A. Are the recommendations clear, straightforward, and unambiguous?
- Q2A. Are the recommendations consistent?
- Q3A. Do you have any other concerns about the recommendations?



Requests for clarifications

- **Non-exhaustive list of requests for clarification:**
 - Some minor issues related to **classification of head offices and holding companies**
 - Treatment of **domestic SPEs**
 - Classification of (hybrid) **real estate investment funds**
 - Classification of **funds with one or more beneficiaries** where the fund manager is also a beneficiary
 - **“Producers” of crypto-assets** without corresponding liabilities: non-financial or financial services?
 - **Super dividends**: FDI exceptional payments recorded as withdrawal of equity in the financial account would only consist of “sales of assets”; which assets?; treatment of super dividends more generally
 - **Treatment of transferable leases** in the case of applying split-asset approach

Requests for clarification (continued)

- **Non-exhaustive list of requests for clarification (continued):**
 - Recording of **depletion** and measurement of government output and final **consumption**
 - Treatment of **terminal costs**
 - Recording of **losses of military assets**
 - Definition of **sustainable finance**
 - **Impact on net saving**
 - **Impact** of e.g., change to cloud services, **on productivity measurement**

Individual disagreements

- **Individual respondents, or few respondents, expressing disagreement on certain issues (non-exhaustive):**
 - Treatment of **SPEs as economic owners of IPPs**
 - Treatment of **concessional loans**
 - Treatment of **non-monetary gold**
 - Treatment of **crypto-assets without corresponding liability as non-produced non-financial assets**
 - **Valuation of non-negotiable debt instruments at nominal value**
 - Measuring depreciation and capital stocks, **using geometric depreciation as a default option**
 - Possible use of **invoice values for exports and imports**
 - **Changes in terminology**

Other (minor) issues of relevance

- Some countries expressing **discontent about recording emission permits**
=> **awaiting outcome of workshop (separate agenda item)**
- Some countries **not happy with parking the treatment of the atmosphere as an asset**, one country even suggesting to postpone the update with one year to resolve this issue => **post 2025 SNA Research Agenda**

Main issues: mineral and energy resources (feedback)

- Several respondents (6-7) expressing **reservations about the measurement of mineral and energy resources**:
 - General concerns about the **valuation of (changes in) stocks**, including depletion, by applying **NPV-method**, which requires several modelling assumptions with a **very large sensitivity of the assumptions on the estimates** => also **impacting on NDP adjusted for depletion**
 - The concept of **resource rent** can only be put into practice when there is **overwhelming evidence that part of generated income (of mining activities) cannot be assigned to either labour or fixed capital**
 - **Valuation is inconsistent with valuation of fixed assets**, the latter being based on transaction values
 - **Delineation in measuring non-renewable mineral and energy resources**
 - **Concerns about split-asset approach**, because (i) actual rents/royalties represent the whole value; (ii) resources should be recorded in the accounts of the entity who uses the resources in production; and (iii) difficult to measure, combined with lack of practical guidance

Main issues: mineral and energy resources (feedback)

- Several countries expressing **reservations about the measurement of mineral and energy resources** (continued):
 - **Renewable resources**
 - **Not scarce and do not have an economic owner**
 - **Profitability** of wind and solar extraction is in many countries **highly influenced by taxes and subsidies**
 - Potentially leading to **double-counting**, as it is already captured in the value of land
 - **Impact on net worth?**

Main issues: mineral and energy resources (considerations)

- **Not accounting for stocks of natural resources would involve a dramatic change to the current guidance of the 2008 SNA**
- If actual transaction values would be available, these would clearly constitute the preferable valuation method; however, **hardly any transactions take place in stocks of mineral and energy resources**, which are also very heterogeneous
- For this reason, already now, the **2008 SNA recommends the use of the NPV-method**, particularly in the context of natural resources, although the current guidance may not be that explicit when it comes to which stream of future returns should be taken into account
- In this respect, **calculating NPV of rents/royalties**, which are often a function of the profits derived from extracting the resources, **is not easier than calculating NPV of resource rents (using the residual value method)**
- Although other classes may have a monetary value, **in practice the measurement will be restricted to class A (commercially recoverable resources) or “actually exploited resources”**
- **NPV of future resource rents is consistent with valuation of fixed assets**, in the sense that both methods try to **capture the future capital services derived from the asset in production**

Main issues: mineral and energy resources (considerations)

- **Very strong evidence that in many countries a significant part of the resource rent is captured by the extractor**; the entity having the right to extract clearly owns an income generating asset of some kind => **split-asset approach provides a good way to account for the appropriation of income by the legal owner and the extractor**
- **Renewable energy resources:**
 - Wind or sun are not scarce, but the **possibility to actually exploit these resources may be limited, due to the need of a permit**
 - **Role of subsidization acknowledged** in the guidance note
 - **Possible double-counting issue is well acknowledged**, although the problem is assumed to be negligible, because the **relevant land is often not valued, or no land is involved** (e.g., wind turbines on open seas); an exception may need to be made for privately owned land, the value of which is based on actual transaction values

Main issues: mineral and energy resources (considerations)

- Assuming that the 2008 SNA is recommending the NPV of future resource rents (using the residual value method), and that the impact of accounting for renewable resources is relatively small, the **impact on net worth is negligible**; may need to add that accounting for renewable resources is new, and therefore may affect net worth
- Importantly, **implementation guidance for the measurement of mineral and energy resources in an internationally comparable way** is in the process of being developed; this should also resolve the issue around the measurement of depletion

Main issues: biological resources (feedback)

- **Recommendations explicitly or implicitly consider animals and plants as producers of output:** this is not consistent with the SNA, which should reflect the fact that humans are the only producers of economic value
- **Fish under quota should not be excluded from cultivated resources**
- Eliminating the distinction between cultivated and non-cultivated resources leads to the situation that **GFCF occurs for resources that are not actively managed**
- It is stated that **regeneration is to be recorded as gross fixed capital formation, which implies that inventories are excluded**
- **Distinction between inventories and underlying asset** not clear
- **Recommendations lead to changes in production boundary and valuation,** which result in a major change in perspective on how the economy is defined
- **Delineation of migrating resources needs further elaboration**

Main issues: biological resources (considerations)

- Always about human activity, but question is **how exactly to define human involvement in theory, and how to apply it in practice:**
 - Current **discretionary choice** between cultivated and non-cultivated resources **difficult to apply**
 - Recommendation to look at non-migrating resources as a **continuum from hardly any intervention to intensively managed**, which is assumed to coincide with output derived from relevant assets; result in a less complicated way of compiling estimates
 - Because of using the continuum, all non-migrating resources are considered as cultivated to some degree, and **regeneration of the underlying asset** (i.e., the change in the value of future income excluding the change in value due to the growth of trees), is considered as GFCF; growth of trees is to be recorded as work-in-progress
 - In addition, simplified assumption that **migrating resources are considered never to be under control and management of humans**

Main issues: biological resources (considerations)

- The 2008 SNA states that work-in-progress in cultivated single-use biological resources (e.g., trees for timber production) should be measured by **discounting “the future proceeds of selling the timber at current prices after deducting the expenses of bringing the timber to maturity, felling, etc.”** (paragraph 13.41) => if the costs related to the underlying asset (e.g., forest land) is not explicitly accounted for, this method for calculating work-in-progress may lead to an **implicit inclusion of the capital services derived from the forest land into the estimate of inventories**
- **No extension of the production and asset boundary:**
 - Only **moving non-cultivated assets to cultivated assets**
 - **Accrual accounting of all growth of trees** which are used in the future for timber production, instead of recording output at the time of felling
 - **Minor changes between inventories and underlying asset**

Main issues: data and marketing assets (feedback)

- Although some respondents expressing concerns **explicitly agree with the conceptual soundness** of the recommendation to treat especially data and, to a lesser extent, marketing assets as produced assets, **concerns** are expressed around the **feasibility of compiling internationally comparable estimates**:
 - Reliance on **assumptions** regarding occupations, service lives, etc., thereby **introducing model-based components in GDP**
 - **Major challenge to implement** for most countries around the world
- **Doubts whether capitalized marketing expenditure can truly reflect the brand value/marketing assets of a company**
- **Marketing assets are not used to increase the volume of output, only the value of output**
- **Value of data is related to its use rather than the dataset itself**
- **Lack of implementation guidance**

Main issues: data and marketing assets (considerations)

- **Importance of recognising the role of data** in modern digitalized economy
- If data have a **positive contribution to production activities**, this should be acknowledged in the accounts
- **An asset is recognised if a stream of future benefits can be derived from it, not necessarily restricted to an increase in the volume of output**
- Estimating marketing assets by **capitalizing expenditures is a prudent approach to measuring its approximate value**, and may indeed not fully reflect the “true” value of these assets, certainly at an individual level
- **Implementation guidance is in the process of being developed**

Main issues: sum-of-costs method (feedback)

- **Market and non-market producers are fundamentally different from each other:** while market producers set their supply and prices in order to maximize profits, non-market producers base them on political and social considerations and may be required to provide services to areas of the economy that would not be covered otherwise; **difference in treatment of market and non-market production is not an inconsistency but a reflection of reality**
- **Opportunity costs should not feature in the system of national accounts,** but only actual costs should be recorded
- **Sum of costs does not have a clear boundary** regarding which costs should be included, and which not. Opportunity costs such as return to capital on inventories and depletion of natural resources are included, while other actual costs such as for maintenance of capital are not
- May possibly have an **impact on government deficit**

Main issues: sum-of-costs method (considerations)

- **Sum-of-costs is a method to approximate a market-equivalent price**, in the absence of observed market prices, by summing up all costs involved in the production of the relevant goods or services; the **costs of using capital in production do not only concern consumption of fixed capital, but also the cost of borrowing funds to invest in capital**; as such, it is not about making profits, but about **recovering all costs involved**
- **The concept of opportunity costs (return on capital) is already applied to market production**
- **In the sum of costs, one should try to capture all relevant intermediate consumption**; not including maintenance of capital may be a matter of feasibility
- Change in the measurement of government output, by adding a return on capital, **does not change government deficit**

Way forward: general reflections

- Quite a few countries raised **concerns about the level of modelling** that may be required for some specific new elements; several countries also raised concerns about the **availability of practical implementation guidance**
- How to deal with these concerns?
 - How does the AEG look upon including new elements like data and marketing assets which on the one hand provide a **more accurate description of the economy** (from a conceptual perspective), but on the other hand may bring **more challenges related to compiling estimates** in an internationally comparable way?
 - How does the AEG look upon the possible **divergence between user needs and request for a more simplified system by some compilers?**
 - Are the established TTs for developing **implementation guidance sufficient** to tackle most of the concerns about practical feasibility
 - Is there a **need for additional TTs, additional conceptual guidance, or more practical examples** showing the impact of specific proposals on main balancing items (such as prepared by Eurostat on accounting for natural resources)
 - What role can the **compiler's hub** play in all of this?
 - Does the AEG have suggestions for **additional ways of communication, or exchanging views?**

Way forward: procedure and timeline

- **Update the note with the consolidated list of changes to the 2008 SNA**, to be put forward to the United National Statistical Commission (UNSC) in March 2024, for endorsement (**to be finalized by the 18th of November, for sign-off by the ISWGNA-Management Group**)
- **Draft a note with a more detailed response to the feedback received**, to be made public as background document to the ISWGNA-report to the UNSC (to be published by **end of January 2024**)
- **The AEG will be kept informed about the progress**

Questions to the AEG

- To provide **feedback on the assessment of the outcome of the global consultation**, particularly regarding the main issues:
 - **Accounting for mineral and energy resources**
 - **Accounting for biological resources**
 - **Accounting for data and marketing assets**
 - **Consistency in the application of the sum-of-costs approach**
- To provide **feedback on the way forward**, especially regarding the ways in which the main concerns can be addressed

Thank you for your attention!

