

Balance of Payments Issues for the SNA Review
Progress as of November 11, 2004

General Subject (Main 1993 SNA reference*)	Specific Issues	Background	Progress
<p>Overview (1993 SNA Ch II)</p> <p>Meaning of “national economy”</p>	<p>Clarify inclusion of offshore financial centers; Discuss application of principles to preparation of data for economic and monetary unions; definitional issues associated with cross-national entities in economic and monetary unions.</p>	<p>Special zones should be included in national data, although the option of showing them separately will be raised; there is increasing interest in preparing data for groups of national economies.</p>	<ul style="list-style-type: none"> • Accepted by AEG Feb 2004. • Usually called “total economy” in 1993 SNA. • Residence aspects discussed in BOPTEG and DITEG June 2004. • To be discussed in BOPCOM June 2005. • Currency union aspects still being discussed by CUTEG. • AEG members also wish to clarify use of terms “national” and “domestic.” (Not a BOP issue.)
<p>Flows, stocks, and accounting rules (1993 SNA Ch III)</p> <p>Application of the concept of “transaction”</p>	<p>(a) Adopt term “change of economic ownership” instead of “change of ownership.”</p> <p>(b) Consideration of whether the assets of persons who change their territory of residence should be treated as a capital transfer (as present) or other change.</p> <p>(c) Clarify application of accrual principles to debt in arrears. (See also related valuation issues under nonperforming loans.)</p>	<p>(a) Proposed term would better cover cases that are currently exceptions, such as finance leasing and repos.</p> <p>(b) Currently treated as capital transfer, but arguably does not fit definition of a transaction.</p> <p>(c) Not mentioned in 1993 SNA. Alternative interpretations are as either (i) imputed transaction for repayment on due date or (ii) reclassification as debt in arrears.</p>	<ul style="list-style-type: none"> • Accepted by AEG Feb 2004. • Discussed in BOPCOM Oct 2004. • To be discussed by AEG Dec 2004. <ul style="list-style-type: none"> • Accepted by AEG Feb 2004. • To be discussed in BOPCOM June 2005. <ul style="list-style-type: none"> • Accepted by AEG Feb 2004. • Discussed in BOPTEG June 2004. • Discussed in BOPCOM Oct 2004. • To be discussed by AEG Dec 2004.

General Subject (Main 1993 SNA reference*)	Specific Issues	Background	Progress
<p>Institutional units, sectors, residence (1993 SNA Ch IV)</p> <p>Residence</p>	<p>(a) Amend principle for residence from “center of economic interest” to “predominant center of economic interest.”</p> <p>(b) Clarification of mobile individuals (temporary workers, international students, etc.)</p>	<p>(a) Proposed term would recognize that entities increasingly have more than one focus of economic interest.</p> <p>(b) Increasing importance with globalization and inconsistent treatments causing global asymmetries. Take account of conclusions of demographic, migration, and tourism statistics.</p>	<ul style="list-style-type: none"> • Accepted by AEG Feb 2004. • Discussed in BOPTEG June 2004. • Discussed in BOPCOM Oct 2004. • To be discussed by AEG Dec 2004. • Accepted by AEG Feb 2004. • Discussed in BOPTEG June 2004 • Discussed in BOPCOM Oct 2004. • To be discussed by AEG Dec 2004. • Continuing discussions in United Nations Technical Subgroup on the Movement of Natural Persons
<p>Units</p>	<p>(a) Multiterritory enterprises (e.g., SAS Airlines)—clarification of residence and circumstances when and how enterprise will be split.</p> <p>(b) Holding companies, special purpose entities, and trusts—clarification of status as units, sector, and residence.</p>	<p>(a) Difficulties in treating multiterritory enterprises consistently, so guidelines needed.</p> <p>(b) These entities often undertake no production, but hold significant assets, and liabilities, as well as undertaking financial transactions.</p>	<ul style="list-style-type: none"> • Accepted by AEG Feb 2004. • Discussed in BOPTEG June 2004. • Discussed in BOPCOM Oct 2004. • To be discussed by AEG Dec 2004. • Accepted by AEG Feb 2004. • Discussed in BOPTEG and DITEG June 2004. • Discussed in BOPCOM Oct 2004. • To be discussed by AEG Dec 2004. • Sector of holding companies pending and to be discussed in BOPTEG Dec 2004 and BOPCOM June 2005.

General Subject (Main 1993 SNA reference*)	Specific Issues	Background	Progress
	(c) Unincorporated branches—clarification of rules for when branch is identified as separate institutional unit, including construction projects, ownership of land and long-term leases.	(c) Inconsistent treatments currently cause global asymmetries.	<ul style="list-style-type: none"> • Accepted by AEG Feb 2004. • Discussed in BOPTEG and DITEG June 2004. • Discussed in BOPCOM Oct 2004. • To be discussed by AEG Dec 2004.
Goods and services (1993 SNA Ch VI) Goods sent abroad for processing	Current treatment to be reviewed.	Current treatment complex, results in large gross flows, the flows do not distinguish between return of processed goods and import of goods for processing.	<ul style="list-style-type: none"> • Accepted by AEG Feb 2004. • Discussed in BOPTEG June 2004. • Discussed in BOPCOM Oct 2004. • To be discussed by AEG Dec 2004.
Merchanting	State treatment of goods that do not enter the territory of the trader.	Not covered in 1993 SNA. Need to state whether margin or goods flow, and recording of inventories.	<ul style="list-style-type: none"> • Accepted by AEG Feb 2004. • Discussed in BOPTEG June 2004. • To be discussed in BOPTEG in December 2004, BOPCOM June 2005.
Primary distribution of income (1993 SNA Ch VII) Retained earnings	(a) Consider whether current treatment of reinvested earnings should be retained.	(a) While direct investment reinvested earnings may be important for analysis, they require imputation and are also incompatible with the treatment of equivalent resident-to-resident relationships.	<ul style="list-style-type: none"> • Rejected by AEG Feb 2004.

General Subject (Main 1993 SNA reference*)	Specific Issues	Background	Progress
	(b) Consider whether retained earnings of mutual funds should be imputed as being income payable and reinvested.	(b) 1993 SNA and BPM5 inconsistent between mutual funds and life insurance/pension funds; ESA 95 inconsistent with 1993 SNA.	<ul style="list-style-type: none"> • Accepted by AEG Feb 2004. • Discussed in BOPTEG June 2004. • To be discussed in BOPTEG in December 2004, BOPCOM June 2005.
Interest and related issues	<p>(a) Possible use of current yield basis as main or supplementary basis for income on debt securities.</p> <p>(b) Treatment of indexation amounts, currently treated as interest.</p> <p>(c) Treatment of interest at concessional rates.</p> <p>(d) Treatment of revenue received by owner for securities lending and reversible gold transactions.</p>	<p>(a) Issues of consistency with other flows and keeping up with any further developments in International Accounting Standards.</p> <p>b) Alternative view that debt indexed to a particular currency is effectively denominated in that currency. Also case of indexation to price indexes, commodity prices, etc.</p> <p>(c) Situations and methods when interest rates include a transfer, discount, or compensation of employees element.</p> <p>(d) This type of income not interest and not currently mentioned; alternative treatments to be considered.</p>	<ul style="list-style-type: none"> • Rejected by AEG Feb 2004. • Discussed in BOPTEG June 2004. • Electronic discussion in BOPTEG September 2004. • Discussed in BOPCOM Oct 2004. • To be discussed in AEG Dec 2004 (the issue of differing treatments in the 1993 SNA and BPM5). <ul style="list-style-type: none"> • Accepted by AEG Feb 2004. • To be discussed in BOPTEG Dec 2004, BOPCOM Jun 2005. • To be provided for information to AEG Dec 2004. <ul style="list-style-type: none"> • Accepted by AEG Feb 2004. • To be discussed in BOPTEG Dec 2004, BOPCOM June 2005. <ul style="list-style-type: none"> • Accepted by AEG Feb 2004. • To be discussed in BOPTEG Dec 2004, BOPCOM June 2005.

General Subject (Main 1993 SNA reference*)	Specific Issues	Background	Progress
<p>Capital account (1993 SNA Ch X)</p> <p>Treatment of activation of guarantees (Also 1993 SNA Ch XI)</p>	<p>Spell out classification of flows associated with calling of guarantees.</p>	<p>No treatment given in 1993 SNA. Issues as to whether activation is transfer or acquisition of equity; if transfer, whether flow is between guarantor and creditor, or between guarantor and debtor.</p>	<ul style="list-style-type: none"> • Accepted by AEG Feb 2004. • Discussed in BOPTEG June 2004. • Discussed in BOPCOM Oct 2004. • To be discussed by AEG Dec 2004. • Further work in TFHPSA on this issue may have implication.
<p>Financial assets and liabilities— transactions and positions (1993 SNA Ch XI, XIII)</p> <p>Valuation of loans and deposits</p>	<p>(a) Proposed use of nominal value in positions, with fair value as a memorandum item for creditors.</p> <p>(b) Reconciliation of transactions at market values with positions at nominal values.</p> <p>(c) Need for guidance about when liability is eliminated by write-off and when interest and FISIM cease to be accrued.</p>	<p>(a) Valuation at nominal value does not reflect financial position of creditor. To incorporate results of EDG.</p> <p>(b) Inconsistent valuations currently used.</p> <p>(c) Need for guidance.</p>	<p>(a)-(c)</p> <ul style="list-style-type: none"> • Accepted by AEG Feb 2004. • Moderator’s report from EDG released Aug 2004. • Discussed electronically by BOPTEG Sept 2004. • Discussed in BOPCOM Oct 2004. • To be discussed by AEG Dec 2004.
<p>Financial instrument classification</p>	<p>(a) Grouping into “debt,” “equity,” and “other”;</p> <p>(b) Adopt terms “debt securities” and “equity securities”;</p> <p>(c) Split equity into mutual funds and other, split mutual fund equity into money market funds and other;</p>	<p>(a) Debt/equity split is of interest;</p> <p>(b) <i>BPM5</i> terminology clearer than 1993 SNA terminology;</p> <p>(c) Mutual funds of analytical interest and shown separately in <i>ESA95</i>; money market funds treated separately in monetary statistics.</p>	<p>(a)-(e)</p> <ul style="list-style-type: none"> • Accepted by AEG Feb 2004. • Discussed in BOPTEG June 2004. • To be discussed in BOPTEG Dec 2004. • To be discussed in BOPCOM June 2005.

General Subject (Main 1993 SNA reference*)	Specific Issues	Background	Progress
	<p>(d) Split financial derivatives into forwards and options; (e) Additional split to allow both original and residual maturity</p> <p>(f) Consider classifying financial gold as a financial asset.</p>	<p>(d) Interest in separate data;</p> <p>(e) SNA text does not distinguish, while asset classification table uses original basis; analytical interest in both bases.</p> <p>(f) Reflects role of gold in financial markets; existing treatment requires gross recording of transactions and interest on gold loans to be treated as a service.</p>	<p>(f)</p> <ul style="list-style-type: none"> • Whether to accept or reject was referred to ISWGNA by AEG Feb 2004. • Discussed in BOPTTEG June 2004. • To be discussed further in BOPTTEG Dec 2004, BOPCOM June 2005.
<p>Insurance (1993 SNA Annex IV, Ch VI, VII, VIII)</p>	<p>Statement of treatment for mutual insurance and reinsurance.</p>	<p>Currently reinsurance netted, mutual insurance not dealt with.</p>	<ul style="list-style-type: none"> • Accepted by AEG Feb 2004. General issues already resolved by AEG. • BOP implications discussed in BOPTTEG June 2004. • Discussed in BOPCOM Oct 2004. • Not to be discussed by AEG (AEG decision accepted by BOPCOM in Oct 2004).

* These issues generally also arise in Chapter XIV Rest of the World Account.