

UPDATE OF THE 1993 SNA: PROGRESS REPORT – NOVEMBER 2004

prepared by the
Intersecretariat Working Group on National Accounts (ISWGNA)
for the December 2004
Meeting of the Advisory Expert Group on National Accounts

Introduction

1. Over the last eighteen months considerable progress has been made in the update of the *1993 SNA*. The United Nations Statistical Commission (UNSC) approved the work program in March 2004, the issues to be considered in the update have been identified, the ISWGNA and its Advisory Expert Group (AEG) reached agreement on the treatment of some issues, and good progress has been made with many of the remaining issues.

2. From the very beginning of the updating process, the ISWGNA has sought to make all procedures as transparent as possible and to involve as many interested parties as possible. Articles on the revision appeared in *SNA News and Notes* (which is, among other things, available on the Internet at <http://unstats.un.org/unsd/nationalaccount/snaneews.htm>) and ISWGNA members have given numerous presentations at conferences and seminars to provide information. Probably the most important contribution to transparency and involvement of the full statistical community has been the creation of a website maintained by the United Nations Statistics Division (UNSD). This site contains the following information, among others:

- a) The work program for the update that was approved by the UNSC in March 2004;
- b) A list of the issues accepted for consideration in the update, with short descriptions of each and an indication of when each one is expected to be considered by the ISWGNA and the AEG;
- c) Issue papers already considered by the ISWGNA and AEG, together with their recommendations and comments received from countries and experts;
- d) Minutes of the first ISWGNA/AEG meeting, held in February 2004;
- e) Minutes of ISWGNA meetings, and much more.

The site, which is accessible at <http://unstats.un.org/unsd/nationalaccount/snarev1.htm>, also provides hyperlinks to websites created by the International Monetary Fund (IMF) that contain detailed information on the parallel revision of the Balance of Payments Manual, fifth edition and the ongoing work of the Task Force on Harmonization of Public Sector Accounts (TFHPSA). (Refer to <http://www.imf.org/external/np/sta/bop/bopman5.htm> for the Balance of Payments and <http://www.imf.org/external/np/sta/tfhpsa/index.htm> for the TFHPSA.)

3. The announcements of the appointments of a Project manager and an Editor are expected soon. Fund-raising to support the update process continues to be a high priority for the ISWGNA.

Management of the update process

4. At its February 2003 meeting, the UNSC charged the ISWGNA with the responsibility of managing the update of the *1993 SNA*. In February 2004, the UNSC supported the work program presented by the ISWGNA.

5. At this point it is worthwhile clarifying what the ISWGNA is and how it operates. The ISWGNA exists at two levels. At one level there is a group of senior national accountants from each of the five international organisations making up the ISWGNA (referred to as ISWGNA: National Accountants). It is this group that meets frequently, prepares reports, etc., and is undertaking the ‘nitty-gritty’ tasks associated with managing the update of the *1993 SNA*. Overseeing this group are the high-level statistical executives of the five organizations (referred to as ISWGNA: Management Group), whose role it is to monitor the progress of the update and to take any actions they see fit to ensure a successful outcome.

6. Appendix I sets out the agreed governance arrangements for the project, including the key roles that the Project Manager and the Editor will play in the update process.

7. In response to the UNSC’s emphasis on transparency and broad involvement of the global statistical community the following facilities have been created:

- a) Issue papers are posted on the ISWGNA website as soon as possible and interested parties are advised of new postings;
- b) Member countries are involved in the consultation process through the ISWGNA sending summaries to all national statistical offices and central banks of the changes recommended by the ISWGNA and AEG (with reference to the website containing the issue papers) and asking for comments; and
- c) Issue papers are presented at regional meetings preferably prior to the combined AEG meetings in 2004 and 2005, provided funding is available. UN regional meetings are generally held in November and the Organisation for Economic Co-operation and Development’s (OECD’s) National Accounts Expert Meeting is held in mid-October. In both cases the timing is conducive to considering issue papers upcoming for discussion in the ISWGNA and AEG meetings.

8. At the March 2004 meeting, the ISWGNA: National Accountants decided that it should increase the frequency of its own meetings (without the AEG) from twice a year to four times a year, and to have meetings by teleconference when it was not possible to meet in person.

9. At each of the meetings of the ISWGNA: National Accountants since October 2003, one of the topics has been the coordination of the 1993 SNA update with the revision of the *Balance of Payments Manual (BPM)* and the activities of the Task Force on the Harmonization of Public Sector Accounts (TFHPSA). This is a critical task and one that the ISWGNA takes most seriously. At this point in time, the coordination process includes the following measures:

- a) National accountants from ISWGNA institutions take part in the meetings of the IMF's Committee on Balance of Payments (BOP) Statistics and the TFHPSA. This participation should ensure that the implications for the SNA of proposed changes to the BPM or GFS will be carefully considered;
- b) Time is set aside at AEG meetings for briefings by representatives from the IMF's Committee on BOP Statistics and the TFHPSA. All issue papers relevant to the update of the 1993 SNA that are approved by the IMF's Committee on BOP Statistics and the TFHPSA will also be considered in the AEG meetings.
- c) The papers and reports produced by the IMF's Committee on BOP Statistics and the TFHPSA are publicly accessible; and, not least,
- d) The various task forces are working in a cooperative spirit.

10. The appointments of a Project manager and Editor will be important in coordinating the update of the manuals. Clearly both of them, in their different ways, will play key roles in ensuring the success of the whole update.

Progress with issues

11. At its first meeting in February 2004, the AEG reached agreement on an initial list of candidate issues to be considered for the update, including balance of payments and public finance issues. After some consolidation by the ISWGNA, this list contained forty-four issues.

12. During the same meeting, recommendations were formulated on a number of issues:

- a) Taxes on holding gains – approved the recommendation that there should be no change to the SNA;
- b) Military weapon systems as fixed assets – accepted all the recommendations from the issues paper, the principal one being to recognize expenditure on military weapons systems as fixed capital formation;
- c) Employer retirement pension schemes – further work needed;
- d) Employee stock options (ESOs) – approved the four recommendations made in the issue paper, the principal one being to recognize ESOs as compensation of employees;
- e) Costs of ownership transfer (COT) on non-financial assets – approved the two recommendations made, namely (i) to continue to record COT as fixed capital

formation, and (ii) that they should be written off over the expected period of ownership (rather than over the life of the asset);

- f) Measurement of the production of non-life insurance – accepted the major proposal to replace the current formula used to estimate the production of insurance services with one using adjusted claims and, optionally, adjusted premium supplements;
- g) Provisional recommendations on the measurement of the production of (non-insurance) financial services – further work needed; and
- h) Measurement of the output of central banks – further work needed.

13. Some AEG members proposed that a few additional issues should be considered in the update. It was agreed that proposals should be sent to the ISWGNA prior to its March 2004 meeting. The ISWGNA: National Accountants made recommendations on each of the 14 proposals thus received, and the AEG subsequently commented on these recommendations. The upshot (which is reported on the UNSD website) was that only points for clarification and textual improvement were accepted.

14. In addition to the above, the ISWGNA has invited suggestions from the international statistical community for rewording *1993 SNA* text that has been found to be confusing, unclear or ambiguous. The suggestions, which are welcome till end-June 2005, should aim at a more user-friendly terminology and at amending wording errors or apparent contradictions. No further conceptual issues will be considered.

15. The second AEG meeting will be held December 8-16, 2004. Appendix II to this report contains the provisional list of topics for this meeting.

16. To ensure that there is full consideration of cross-cutting issues, a list of issues that overlap the scopes of the task forces will be made. UNSD will forward this list to the chairpersons and secretaries of all task forces for their consideration.

17. The ISWGNA decided that the management of the project will be further improved by the development of a standardized set of reporting tools, building on the experience of the OECD and the BOP Committee.

Financial matters

18. The World Bank manages a Trust Fund from which are paid the salaries of the Project manager and Editor, their travel costs, the travel costs of AEG members from developing countries, costs associated with the preparation of the manuscript, and other consultancies. The World Bank has agreed to waive its usual charges in managing the Trust Fund.

19. The total expected expenditures are in excess of US\$1.3 million; current commitments by international organizations and national statistical offices add up to slightly above three quarters of this amount. Further funding raising is therefore warranted. The UNSD has already sent a request for contributions to national statistical offices and the IMF intends to do contact the central banks shortly. The World Bank is providing the ISWGNA with updates of the budgetary situation at regular intervals.

APPENDIX I

Governance Arrangements for the SNA Update Project

1. In November 2004, the Inter-secretariat Working Group on National Accounts (ISWGNA) agreed on the governance arrangements set out below for the SNA Update Project. These arrangements amplify and clarify earlier documents on this subject, including the *Work Programme for the Updating of the 1993 SNA* (21 November 2003).

2. The major elements of the governance arrangements are shown in the attached diagram. This commentary follows the diagram, working down from the commissioning of the Project, responsibility for success, management, technical work, and support. The key (lower left) shows four kinds of relationships between the units: reports to, guidance to, oversight to, and consult/liaise between.

Statistical Commission

3. The UN Statistical Commission mandated the Project and is the entity that will approve the Project's final output—the *1993 SNA, Rev. 1*. More specifically, the Statistical Commission expects, based on the Work Programme of November 2003, a consolidated set of recommendations for its March 2007 meeting and a final draft *SNA, Rev. 1* for its March 2008 meeting. Further, it is expected that the Statistical Commission will endorse work on the Project outcomes—implementation of the new manual by member countries with the assistance, as needed, by a number of international and regional organizations.

ISWGNA

4. The ISWGNA is one of the longest-lived of the bodies set up to enhance cooperation among international organizations working in the same field. Since the early 1980s, it has had five members: Eurostat, IMF, OECD, United Nations (sometimes referred to the United Nations Statistics Division and regional commissions), and World Bank. In the mid-1990s, it was agreed that the chairmanship of the group would rotate among the five organizations and that the Secretariat would be at the United Nations Statistics Division. The usual practice has been that the ISWGNA functions at two levels: at what is called in this note the "Management Group" and "national accountants."

5. The Management Group's function, as shown in the diagram, is—collectively—to ensure appropriate outputs and inputs for the Project and lay the ground for successful outcomes. (Of course, the managers also act within their own organizations to further the agreed goals and objectives of the ISWGNA.)

6. The specific activities and tasks of the ISWGNA: Management Group are as follows:

- Agree on the governance arrangements for the Project and endeavor, collectively and individually, to support the thrust of those arrangements for the duration of the Project.

- Set the strategic direction of the Project (within the parameters set by the Statistical Commission), ensure appropriate input and outputs, and agree on desired outputs and outcomes with the Project Manager.
- Assess and ratify the overall work plan, schedules, communication strategy, and budget of the Project.
- Address Project resource issues, and raise funds as needed to support the Project.
- Receive, and act upon as needed, regular reports on progress toward outputs and outcomes, budgets, and stakeholder views and concerns, including any matter (for example, on the scope of the Project) that puts the agreed outputs/outcomes at risk.
- Report to the Statistical Commission.
- Liaise with stakeholders, managing their expectations and gaining their support.

Project Manager

7. As work on the Update Project got underway, it was decided to establish the position of Project Manager. The preliminary documents suggest a "respected senior statistician who has a clear understanding of the 1993 SNA, proven ability to undertake international coordination work, good interpersonal skills, and excellent management and communication skills" and "well known and highly respected in the international community, particularly in national accounting circles, and of close acquaintance with many statisticians from developing countries," as the qualifications that would be sought.

8. In the governance arrangement, the Project Manager reports to the ISWGNA: Management Group. In turn, the Editor—as the only other consultant to the Project (at least as agreed so far) reports to the Project Manager. The Project Manager provides oversight to the ISWGNA: National Accountants as a body and provides guidance to the support units. The tasks and responsibilities, in line with the qualifications just noted, are as follows.

a. Output and outcomes

Agree on desired outputs and outcomes with ISWGNA: Management Group.

Report regularly on progress, including any matter that puts agreed outputs/outcomes at risk.

Deliver quality intermediate and final outputs on time and within budget.

b. Organization of work

Review and confirm overall work plan, prepare schedules for intermediate outputs and activities, track progress, and take appropriate action as needed.

Develop a communication strategy consistent with transparency, sequenced to stay within the time constraints, and supportive of successful outputs and outcomes.

Prepare and monitor cash and in-kind Project budget (fund raising being the task of the ISWGNA: Management Group).

Assign (in respect of reporting relationships) or negotiate (in respect of guidance and oversight relationships) tasks of the technical and support teams, track progress on tasks, and note completion of tasks of dedicated and contributed project resources.

c. Liaison and communication

Liaise widely, most especially with stakeholders to manage their expectations and gain their support.

Facilitate communication among ISWGNA: Management Group.

Participate with the ISWGNA: National Accountants in process and technical discussions as needed.

Participate in the AEG and participate in other technical consultations (for example, Canberra Group II) as needed.

d. Technical matters

Ensure adequate and effective review of technical matters.

With the Editor, provide oversight of the overall consistency of the *SNA, Rev. 1* and harmony with other macroeconomic statistical standards (including BOP and GFS).

Facilitate settlement of contentious issues and, in consultation with the Editor, take decisions as needed.

e. Other: Conduct a 360° review of the governance arrangements put in place after one year and periodically thereafter until the completion of the Project.

f. By-product: Analyze and formulate views about implementation, drawing on liaison with the stakeholders and others.

Editor

9. It was decided early in the consideration of the updating process to engage a designated editor. The qualifications were for someone who is "an internationally recognized expert on national accounts who has a thorough understanding of the *1993 SNA* and its updating issues, proven experience in international coordination work, and excellent drafting skills in English."

10. In the governance arrangements, the Editor has the following tasks and responsibilities:

a. Outputs

Progressively draft recommendations for change and clarification and prepare drafts of the text of the *1993 SNA, Rev. 1.*, according to the Project schedule

Carry through the preparations of the *1993 SNA, Rev. 1.* to the camera-ready copy (or its equivalent)

b. Liaison

- Participate with the ISWGNA: National Accountants in technical discussions as needed
- Participate in AEG meetings and participate in other technical considerations, including with a view to consulting with authors of substantive reports of the expert groups

c. Technical matters

- With the Project Manager, provide oversight of the overall consistency of the *SNA, Rev. 1.* and of the harmony with other macroeconomic statistical standards
- Catalog the changes that may be needed to the various existing handbooks, compilation guides, and satellite accounts manuals that arise from the update

ISWGNA: National Accountants

11. ISWGNA: National Accountants, collectively, sponsors and facilitates the technical consultations. These consultations are at the heart of the Project.

12. The ISWGNA: National Accountants is already functioning. With oversight from the Project Manager, it continues to have the following tasks and responsibilities:

a. Output:

- In consultation with the AEG, consider the proposals for change and take decisions on the scope of the updating and on technical issues.
- Circulate decisions to countries and/or regional and other expert meetings for discussion.
- In consultation with the AEG, consider the response to proposed changes from countries and/or regional and other expert meetings.

- b. Liaison with the Editor and with both the AEG and the existing expert groups, including to assess and evaluate the internal consistency of the *1993 SNA, Rev. 1* and the harmony with other macroeconomic statistical standards.

Advisory Expert Group and Expert Groups

13. The AEG was set up recently, in 2002, and was positioned to have a key role in carrying out the Project in a transparent way and ensuring that it was a world-wide undertaking. It considers the proposals for change of the *1993 SNA* and expresses views.

14. Issues come to the AEG from various existing expert groups—for example, the Canberra II group on non-financial assets, regional meetings, EDGs, and the IMF Balance of Payments Statistics Committee. Each expert group has a terms of reference, a deadline, and a designated moderator to monitor discussions and write conclusions to be submitted to the AEG.

Project Support

15. As noted above, the Secretariat of the ISWGNA was established permanently at UNSD in the mid-1990s. In these governance arrangements, it is the main source of logistical and administrative support for the Project, and the Project Manager provides guidance for this support. Among the tasks that the Secretariat undertakes are the following:

- Maintenance of the Project Website ("Towards 1993 SNA, Rev. 1").
- Preparation of Project correspondence with the Statistical Commission members and national statistical offices.
- Preparation of reports to the Statistical Commission on behalf of the ISWGNA.
- Logistical and other support to the Project Manager.

16. The World Bank provides support by managing the Trust Fund. Also in that capacity, among other tasks, it will facilitate contractual arrangements for the Project Manager and Editor. It also provides some logistical and administrative support to the consultants, although other ISWGNA organizations may also provide some such support.

GOVERNANCE: SNA UPDATE PROJECT

Broad Function

Endorsed managing and coordinating role of ISWGNA. Expects outputs in 2007 and 2008.

Ensure appropriate outputs and inputs, and lay the ground for successful outcomes

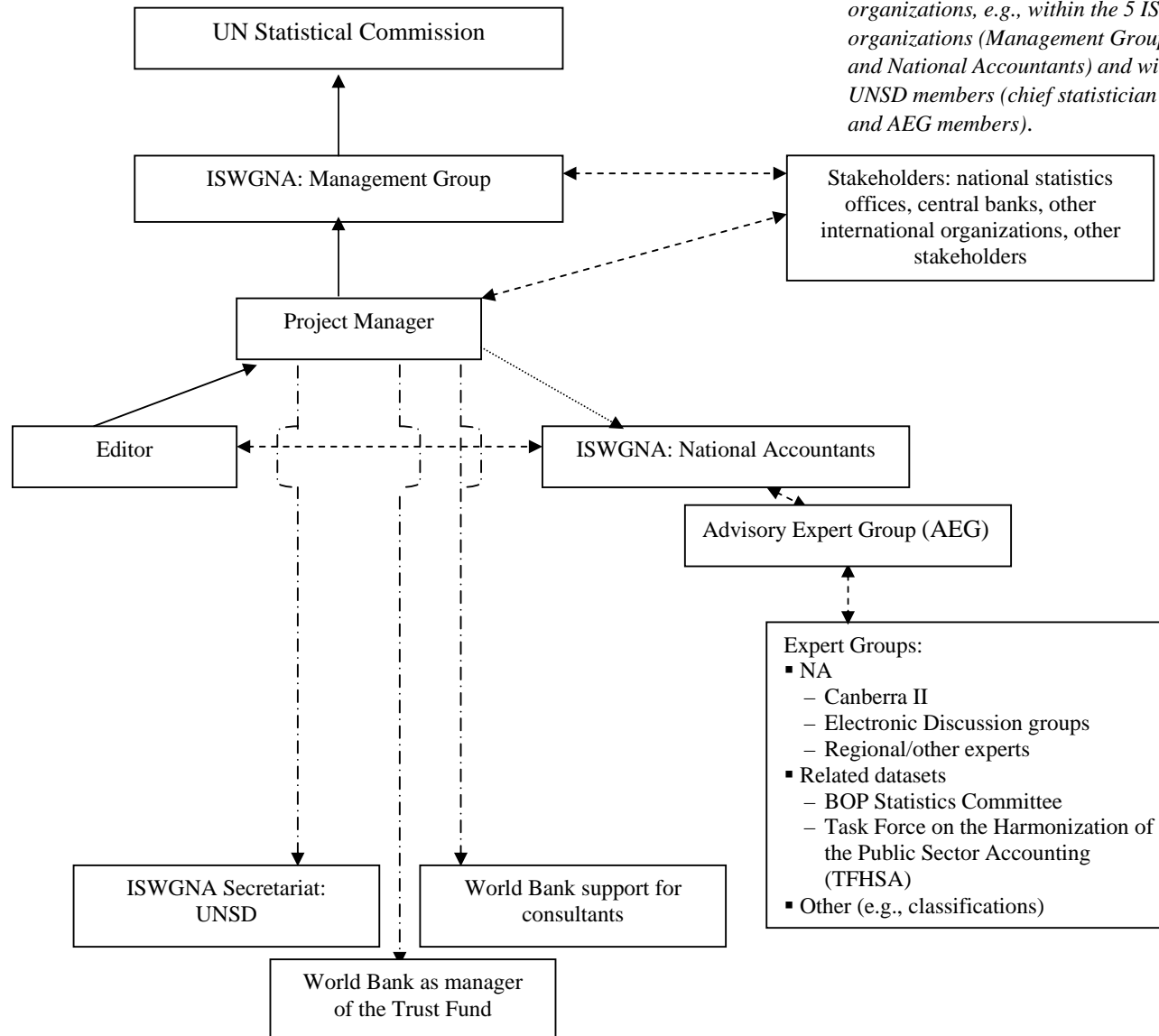
Project management

Technical work

Project support

- Key:**
- = Reports to
 - - -> = Guidance to
 - ←..... = Oversight to
 - ←- -> = Consult, liaison

Note: This diagram sets out the governance of the Update Project per se. It does not include important relations within organizations, e.g., within the 5 ISWGNA organizations (Management Group and National Accountants) and within UNSD members (chief statistician and AEG members).



APPENDIX II

Provisional list of issues to be discussed at the meeting of the AEG: November

- Databases
- Mineral exploration
- Originals and copies
- Non-performing loans
- Government owned assets: cost of capital services
- Treatment of land
- Cost of ownership, part II
- Progress on work program of the TFHPSA
- Informal sector
- Alternative presentations of top structure of revised International Standard Classification of all Economic Activities (ISIC) and Central Product Classification (CPC) in the update of the *1993 SNA*
- Cost of capital services in production account
- Treatment of provisions
- Progress on work program of the revision of *BPM*, 5th edition
- Change of economic ownership
- Application of accrual principles to debt arrears
- Predominant center of economic interest
- Treatment of multi-territorial enterprises
- Holding companies, special purpose entities and trusts
- Recognition of unincorporated branches
- Goods sent aboard for processing
- Treatment of activation of guarantees
- Repurchase agreements
- Non-life insurance services
- Treatment of employer retirement pension schemes