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16 February 2009
STC/2009/019

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Dear Adelheid,

IMF consultation on the draft Volume 2 of the System of National Accounts 2008 (2008 SNA)

Please find attached the comments on the draft Volume 2 of the System of National Accounts 2008. The comments have been shared with the members of the Statistics Committee (STC) of the European System of Central Banks (ESCB). The ECB would like to raise some concerns related to the missing transparency of this final phase of the updating process. Furthermore, we do not support to shorten the text on social accounting matrices in such a way as done in Chapter 28 (compared to Chapter XX of 1993 SNA) and also to exclude labour accounts as an extension of the standard accounts in Volume 2.

Nevertheless, we may be able to endorse the draft Volume 2 (and also Volume 1) if we get the opportunity to provide final comments on both parts in the coming months. In this context, we support the ISWGNA proposal that the 2008 SNA should be published and printed as one document rather than in two volumes.

Kind regards,

[Signed]

Steven Keuning

Encl.: Annex with comments

Cc: a) Members of the Statistics Committee

b) Permanent Representative of the ECB at the IMF

c) Members of the ISWGNA

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Comments on draft Volume 2 of 2008 SNA (including some comments on Volume 1)

The draft of Volume 2 (Chapters 18 to 29 and Annexes 3 and 4) has been made available on the update's project's website at http://unstats.un.org/unsd/sna1993/draftingphase/review/Volume2.asp.

First of all, it must be observed that the updating process has become rather intransparent. In particular, it is very difficult to comment on the changes in Volume 1 without knowing which parts have been revised. Besides, for Volume 2 no reference document is available to indicate which comments (including the comments made by the ECB) have been taken on board and which not.

Volume 1

Concerning *Volume 1*, the fact that no new draft is available (like, for instance, for the IMF's BPM6) with tracked changes is a drawback. We assume that many changes have already been included in Volume 1 following the changes which appear in the recent draft BPM6 of December 2008. When reading that draft we found a number of insertions, for instance on financial institutions, financial assets and other topics, which may have also been included in Volume 1 of the 2008 SNA. However, any reference for this is lacking. We would welcome to be informed on such changes, assuming that full consistency between the 2008 SNA, the BPM6 and other handbooks will be maintained.

The Report of the ISWGNA sent to the UNSC meeting in February 2009 shortly describes the required changes to Volume 1. This description is somewhat unbalanced: In items (b) to (d), it refers to a minor terminological change. However, in item (f), it deals rather superficially with two substantial issues: a) the inclusion of a paragraph describing various criteria for the core/non-core reporting of pension entitlements and b) the treatment of pension reforms as transactions and, in exceptional cases, as other changes in the volume of assets. It may also be mentioned in the text that item (g) is an issue which was already decided by the AEG some years ago. Finally, not all issues discussed at the AEG meeting in November 2008 are mentioned like the treatment of experience effects in pension modelling; or the recording of emission permits/carbon trading rights.

Taking into consideration all changes in the BPM6 and the changes which have been made following the discussion on codes, pensions and other issues at the AEG meeting in November 2008 there is still a need to comment on a complete amended version of Volume 1 of the 2008 SNA. The provision of details of the substantive changes to the UNSC in a background document by end-February 2009 seems too late. Therefore, we would recommend to post the most recent Volume 1 of the 2008 SNA with the corresponding tracked changes on the UNSD website and to allow an additional commenting period on these (substantial) changes.

Finally, the accounting treatment of index-linked debt securities deserves further consideration. During the drafting of the BIS-ECB-IMF Handbook on Securities Statistics it has became obvious that the current text in the 2008 SNA and in the BPM 6 does not give clear guidance on the appropriate accounting of accrued interest in the case of index-linked debt securities. We assume that the text has to be amended in a consistent way that statisticians can compile accrued interest without any ambiguities. One option would be to add a paragraph in the research agenda (Annex 4) after paragraph A4.27, dealing with the issue on accruing interest in the case of index-linked debt securities.

Volume 2

Concerning *Volume 2* of the 2008 SNA, Chapter 27 was posted on the SNA update website in December 2006 for comments (numbered as Chapter 26 at that time), and chapter 20 was posted in May 2008. The remaining ten Chapters of Volume 2 were made available for review and comments between early August and early October 2008. Two Annexes have also been added which were not made available for comments prior to the recent submission of Volume 2.

The ECB has provided comments on ten out of twelve chapters of Volume 2 as indicated in the following table. Rather detailed comments were transmitted to the UNSD on Chapter 21 (Measuring corporate activity), Chapter 22 (The General Government and Public Sectors), Chapter 24 (Households), Chapter 26 (The rest of the world account and links to balance of payments), and Chapter 27 (Links to monetary statistics and the flow of funds). Therefore we would be grateful if we were informed of which comments had been rejected; again, the availability of a version in track changes would improve the follow-up of the revising process.

Table: Overview of the comments provided by the ECB on draft Chapters of Volume 2

Chapter	ECB comments provided on
18: Elaborating and presenting the accounts	29 September 2009
19: Population and labour inputs	26 September 2008
20: Capital services and the national accounts	1 May 2008
21. Measuring corporate activity	4 November 2008
22: The general government and public sectors	13 September 2009
23: Non-profit institutions	No comments provided
24. The households sector	4 November 2008
25: Informal aspects of the economy	No comments provided
26: The rest of the world account and links to the balance of payments	26 September 2009
27: Links to monetary statistics and the flow of funds	12 February 2007
28: Input-output and other matrix-based analyses	5 November 2008
29: Satellite accounts and other extensions	5 November 2008
Annex 3. Changes from the 1993 SNA	No comments provided
Annex 4. Research agenda	No comments provided

Chapter 21: Measuring corporate activity (with some cross-references to chapter 17)

The Chapter on 'Measuring corporate activity' is still a mixed bag of material already contained in Volume 1. It appears not only superfluous, but even worse, as it is occasionally inconsistent with the rest of the SNA.

It contains three pages on demography and sub-sectoring which are broadly ok, although they don't go into the analytical value. The section on the accounting treatment of mergers and acquisition was never discussed at AEG meetings. As there is not yet a common understanding what an M&A means and how to treat it, we recommend to put this issue on the SNA research agenda.

There is also a section on cross-border activity which needs to be checked regarding its consistency in BPM6, e.g. concerning the treatment of "pass-through funds" and ultimate investing country. Then there is a very small (but in our view important) statement on the treatment of multinational enterprises which offers a potentially inconsistent treatment of multinationals with that in BPM6.

On the section describing the consequences of financial distress the ECB disagrees with a recording of one-off guarantees at inception to a unit in distress. Here we suggest adhering to the general principle in 1995 ESA that one-off guarantees are contingent liabilities (off-balance sheet) and are only recorded in the accounts when they are exercised. To maintain coherence between the 2008 SNA and the new ESA but also of the accounting of one-off guarantees within the System we recommend dropping the text in brackets of paragraph 17.203. It deals with an exception that "one-off guarantees granted by governments to corporations in certain well-defined financially distressed situations and with a very high likelihood to be called are treated as if these guarantees are called when the financial distress is recognized" and introduces an inconsistent treatment of one-off guarantees which should be avoided.

Furthermore, we agree to treat standardised guarantees as non-life insurance technical reserves. Specifically, we endorse the proposal made by the AEG in its meeting in November 2008 to generalise the accounting of standardised guarantees by applying it to all financial assets.

There is a need to define the terms 'bad debt' or 'bad loans' (paragraphs 21.56 and 21.57) and also the relationship to non-performing loans (which are defined in paragraphs 13.65 to 13.67). Corresponding references should be made to avoid misinterpretation. The text should also be checked vis-à-vis the recommendations made on memo items in paragraphs 13.66 and 13.67. In these paragraphs, the term market value of loans is used as well the nominal and market value of bad loans. As far as loans are concerned they are recorded at nominal value because they are not tradable.

The section on the links to commercial accounting is written in a rather optimistic way. Taking into consideration recent developments in the context of the financial crisis commercial accounting practices are still rather heterogeneous across countries. Besides, the statement that multinationals already apply these international accounting standards is correct, but the available data are almost consolidated on a group level. Such data are not very useful and often misleading or difficult to apply for national accounts purposes. It is also the case that unconsolidated and group-consolidated data often follow different standards and are not mutually reconcilable. The statement that IPSAS are generally used in the public sector is also not true. This might be the case in some developed countries. Yet, even in those countries government data do not always follow IPSAS. Moreover, they are still to a large extent cash-based and not accrual-based and have to be appropriately converted into national accounts concepts.

This rather heterogeneous chapter misses an opportunity to measure corporate activity by means of specific indicators. Overall, information on aggregates like corporate finance and investment, corporate debt and equity, leverage and financing gap, profitability, dividends, corporate cash flow, and saving is still missing in this chapter. Many of such indicators are of interest in the context of policy analysis (euro area accounts, US flow-of-funds). They derive from the integration of the financial and non-financial accounts.

Chapter 22: The general government and public sectors

We consider that this chapter is still too long as it covers many details which are already discussed in other chapters like the concepts of units, sectors, and control. Furthermore, we would recommend bringing this chapter as much as possible in line with the corresponding ESA chapter currently drafted and discussed.

The text of the chapter has been substantially changed. Therefore we suggest having a summary of the changes. Again we do not know what was the reason for not including some of the comments provided, namely the definition of economically significant prices and the inclusion of some references to Eurostat's Manual on Government Deficit and Debt to provide a much clearer text, for instance in relation to "payments between the central bank and government" (paragraph 22.155).

Chapter 24: The household sector

Some of the comments made on this chapter have been taken. Nevertheless, we would like to mention that some paragraphs should be included on the financial side (financial investment and financing) of households. The statements on the borderline between unincorporated enterprises (as part of households) and corporations need some more elaboration. It might be useful to provide some more guidance on this (criteria when to classify within the households sector and when not). At present, countries use different criteria for this split, which seriously hampers international comparability. In addition, we would propose to provide some guidance how to bridge data derived on a residual (sector) basis – which is quite usual when compiling household financial accounts – and household survey data.

Chapter 26: The rest of the world account and links to the balance of payments

This chapter is too long. It entails many repetitions on units, residence and functional categories. All these items are either described in other chapters of the SNA or in the BPM6. It would be sufficient to refer to the corresponding paragraphs or handbooks.

On the other hand, it would be very useful to provide reconciliation tables between relevant external accounts of the SNA and corresponding items in balance of payments accounts and the international investment position, like tables A.II.1 – A.II.9 in the current SNA93.

Further comments refer to some paragraphs in this chapter. Paragraph 26.42 states: "...what is called "corporate migration" involves the conveyance of assets and liabilities from a corporation in one economy to a related entity in another economy rather than a change of residence of the entity." It is not clear to us whether such an event should be treated as a transaction or (like a change of residence) as an other change in the volume of assets. In paragraph 26.106, we suggest adding "Debt repudiation and write-offs and write-downs of debt do not satisfy the definition of debt reorganisation and are not transactions in the SNA." at the end of the paragraph. Similarly, we suggest adding "and should be recorded as such" at the end of paragraph 26.108.

Chapter 27: Links to monetary statistics and flow of funds

We note that our earlier rather detailed comments have been partly incorporated. Nevertheless, the chapter is still quite incomplete and also not consistent with the corresponding chapters defining financial corporations, the financial account and the financial balance sheet.

Paragraph 27.4 states that “the purpose of this chapter is to give an introduction to the sorts of analyses involved in monetary and financial statistics more generally and to show how the data in the sequence of accounts can be linked to these other presentations. Further detail on monetary and financial statistics can be found in the IMF publications Monetary and Financial Statistics Manual (MFSM) and its companion Compilation Guide and in the ECB Monetary and Financial Statistics Manual.” Indeed, the new draft is mainly based on the IMF MFSM which has not yet been updated according to SNA and BPM6. This might lead to situations in which compilers and users are misled due to diverging recommendations. The second reference mentions an ECB Monetary and Financial Statistics Manual which does not exist. We assume that it was intended to refer to the UN/ECB Handbook on financial production, flows and stocks which is currently drafted.

Chapter 27 covers three parts: monetary statistics, financial statistics and flow of funds (better to talk about from-whom-to-whom accounts and balance sheets).

In the part on monetary statistics negotiable certificates of deposits are mentioned as part of money but not money market funds or units. This is done later in paragraph 27.13 with the qualification that they have to be short-term. The reference to the maturity breakdown, however, is misleading as definitions of money vary among countries as mentioned. It means that a maturity breakdown as defined in Chapter 11 might be difficult to apply in this context. Moreover, at least in the euro area and in other European countries, there are several breakdowns of deposits used to derive broad money which are not in line with the breakdown into transferable deposits and other deposits.

Concerning the definition of sub-sectors used for monetary statistics we presume that a flexible approach has been chosen for the definition of depository corporations. In any case, in the euro area we will define MFIs as depository corporations. Therefore, it should be made clear that other depository corporations may deviate from S121/S122 as currently defined in Chapter 4.

In the part on financial statistics a clear definition should be provided what financial statistics means. It becomes clear after having read the whole part: It covers the financial account, other flow accounts related to financial assets and liabilities and financial balance sheet. The extension is also described to include the capital account (in connection with the financial account). A further expansion, to include other flows and stocks in non-financial assets is not discussed. Finally, paragraph 27.21 is incomprehensible and may be wrong.

Concerning Table 27.2 the memo item including its subdivision may not be generally accepted when presenting financial statistics. Foreign direct investment is one of the functional categories shown in the balance of payments but not in financial statistics (partly among resident sectors).

Nothing is said which financial corporation sub-sectors should be shown in financial statistics, in addition to monetary financial corporations as described in the monetary statistics part. It might be useful to also separate insurance corporations and pension funds, and investment funds. Moreover, in the context of securitisation activities, it should be considered to separate securitisation corporations and show their stocks and positions vis-à-vis other sectors and sub-sectors.

We would recommend showing the same categories and their breakdowns in the tables as presented in Volume 1. Moreover, the footnotes are difficult to understand. It might be useful to explain them in the text, refer to paragraphs in other chapters, or drop them. For instance, it is difficult to distinguish between dividends and reinvested earnings in the case of listed shares.

In the flow of funds part, only reference is made to transactions and stocks, but not to revaluations and other flows. It is also misleading to say that that the creditor/debtor relationship is shown for stocks (paragraph 27.9). What about transactions? While the description of flow of funds refers to a three-dimensional presentation of the accounts, the text refers to Table 27.3 which is two-dimensional.

There is only one paragraph on stock accounts (paragraph 27.42). It states that stocks are more stable than flows, which may not be always correct, for instance for securities due to holding gains and losses. Moreover, it is not clear to us what is meant by the last part of this paragraph: “and the degree of fluctuation from the stock level may convey particularly useful additional information”. Our view is that the reader would expect some more substantial statements - especially in terms of how to analyse stock data (also in relation of flows) like portfolio shifts, corporate or government finance. Some text should also be included how to derive asset prices from the revaluation account. Some reference to asset prices could also be made in Chapter 12.

Moreover, Table 27.4 presents the accounts only from a creditor point of view. A similar table should be designed from a debtor point of view. It also presents the data by currency denomination which is not described as a proposed classification criterion. Insurance technical reserves are split into five sub-categories in Table 27.2 and into six sub-categories in Table 27.4. The splits of transferable deposits and financial derivatives are not recommended. Moreover, it would be much more informative to show a table with money embedded. In this context we would welcome some text on the options on how to break down other deposits by maturity.

Some further comments refer to some sentences in this chapter. Concerning paragraph 27.3, the sentence "These statistics are used to monitor the state of the money and other capital markets in particular and as an indicator of the state of the economy in general" is quite peculiar. First, does the money market form part of the capital market? We understand the capital market as referring to longer-term investment/financing. Second, how can "statistics" be used as an indicator? We suggest to redraft the last part of paragraph 27.13 as "included because shares/units issued by them are considered to be close substitutes for deposits and accordingly included in broad money", since only financial instruments and not institutions can be part of broad money. In paragraph 27.21 (please check paragraph break) the residual maturity break should presumably be "one year or less" (and not less than one year). Furthermore, we suggest to redraft paragraph 27.32 as "Currency and deposits may be broken down into the asset categories currency, transferable deposits and other deposits, in each case distinguishing between amounts denominated in national and in foreign currency..." which may prevent some readers to be confused by the use of "currency" in two senses in the same sentence. Finally, in paragraph 27.11 (last sentence), would "might cause" not be better than "cause"?