

**Comments on draft SNA chapter:
Chapter 10: The capital account**

**Deadline for comments: 12 February 2007
Send comments to: sna@un.org**

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This three-part template allows you to record your comments on draft chapter 10 easily and, at the same time, makes it easy for us to use your comments in considering revisions to the draft chapter. You may complete any one, any two, or all of the three parts of the template.

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Part I: General comments

In the space below, please provide any general comments, such as about the clarity with which the new recommendations were incorporated (30 words or less).

Comment:

- To close the sequence of (transaction) accounts the capital account and the financial account (chapters 10 and 11) are discussed first followed by chapter 12 (Other changes in assets account) and chapter 13 (The balance sheet). However, it could also be considered to start with the presentation of the balance sheet followed by the presentation of the changes of balance sheet positions. This would allow discussing in detail the components of the balance sheet (non-financial assets, financial assets, liabilities and net worth) first. Afterwards the various accumulation accounts could be discussed without the need of many repetitions in the current text. The basic formula connecting the accumulation flows and the stocks ($(S(t) + T(t) + R(t) + O(t) = S(t+1))$) could be described and illustrated in a rather general way (a graphical presentation is already used in the IMF's GFSM).
- Some elements discussed on presentation issues could also be reflected in chapter 14.
- Views were also expressed that:
 - The text should record matters of significance, only and be based on general clear principles and definitions.
 - There is far too much text on rules, criteria, boundaries and practical issues which are better presented in a Guide. For example on valuation; time of recording; netting; consolidation.
 - The text needs to be clear on what should be included and on what should be recorded in memorandum items. If the latter, there should be some text describing the process of inclusion in these accounts: is it recommended or just a "nice to have"?
 - There are the same issues in formatting, as previously indicated in chapters 9 and 14-use of bold, italics, etc.

- The tables are generally unclear and we find the use of numbers confusing, particularly where values differ for identical items.
- There should be a common format for each chapter. The introduction should describe the uses and purpose of the account in clearly understood language; a brief review of the structure of the account; and any general issues regarding the entries which might be different from general SNA principles.
- More specifically:
 - This chapter was found to be very confusing: the sequence of the chapter is difficult and the terminology and definitions vary during the chapter. The chapter should start from “2. The structure” and should include just the key headings: gross capital formation; inventories; other changes in assets; and net lending or borrowing. Just a simple structure with entries against these four headings. At present, the structure of this chapter (page 7) does not include non-financial assets and produced assets which precede 2, the structure of the sections B through E which follow.
 - The references to left-hand and right hand side of the account is confusing and probably not consistent with accounting principles: better not to use this and present instead the balance sheet by analytical categories.
 - The "asset boundary" (19.30-19.34) and "storage and stocks of inventories" (19.115-19.118) and all the detail of valuation and asset boundary should be included in a Guide.
 - By the time one arrives at E. Capital transfers (19.189-19.204), it is difficult to visualise what the links are to the balance sheet.

Part II: Comments on specific draft paragraphs or passages

In your review of draft chapter 10, you may wish to devote particular attention to the passages listed below. There is space after each issue for any comment you wish to make.

1. Sections B covers produced assets. Much new material has been included originating in the Canberra II Group. Are the additions clear, especially to those not involved in the Canberra II Group work?

Comment:

Fine, but why say in 10.6 the different categories "need" to be distinguished?

2. Section D1 covers natural resources. Every attempt has been made to harmonise with the asset categories in SEEA and some detail is left optional within SNA though included in SEEA. Are you satisfied with the balance? If not, what would you propose?

Comment:

Fine, but asset boundary, ownership and valuation (10.156-10.161) belong in a Guide.

3. Section D2 covers contracts, leases and licenses. A fuller exposition of these will appear in chapter 17 on Cross-cutting and Other Special Issues. Although it may be difficult to comment without having chapter 17 in hand, are there points missing from this summary that you think should be necessary even in a summary?

Comment:

Fine, but asset boundary and valuation (10.174-10.176) belong in a Guideline.

4. It is proposed to omit the annex on costs of ownership transfer. Is there anything missing on this subject from the chapter if the annex is dropped?

Comment:

No.

Part III. Other specific comments

You are welcome to make other comments. Please do so by using Adobe Acrobat Version 6 or 7 to comments directly on the PDF of the draft chapter.

If you don't have Adobe Acrobat Version 6 or 7 and would like to make very detailed comments please send a message to sna@un.org requesting to receive a version of the draft chapter permitting you to comment. To optimize your commenting tools please download Adobe Reader 7.0 for free from <http://www.adobe.com/products/acrobat/readstep2.html>

A. Introduction

- A subheading for this part of the introduction should be introduced.
- 19.1 The reader would ask: (i) what is the reasoning to have two different transaction accounts, one OCIA account and one revaluation account; (ii) why not to have one for each or two for each; (iii) why not to have three different accumulation accounts (one for transactions, one for revaluations, and one for other changes in the volume of assets). Why not to present a chart showing the relationship between flows and stocks and the corresponding reference chapters.
Is net worth already introduced? Or is it first mentioned in chapter 13?
Do we really want to show the accounts for an institutional unit in SNA or only for aggregates?
- 19.2 A rather complicated first sentence. Would it not be easier to refer to transactions in the various components (acquisitions and disposals)? Why now residents? What is an internal transaction? Is it explained? Only GFCF?

19.3 It would be convenient to show this also in a chart. The comparison to balance sheet is rather difficult to reason (only changes in non-financial assets on asset side GFCF, “other items” on the right-hand side and also on the left-hand side. Is the comparison with the current account necessary? Is it defined?

19.4 What does ‘resources available for accumulation of assets’ means? Is this not too narrow? Resources could be saving, capital transfers receivable but also net incurrence of liabilities.

19.5 Definition of assets should be treated earlier.

1. Non-financial assets

The text starting in 19.5 is result-related if it speaks about assets; option would be to start with balance sheet as indicated above and explain all types of assets.

19.6 As the title is “capital account” we should refer to transactions in non-financial assets (see old 10.25) and start from this angle. See also old par 10.24.

Produced assets

19.8 The important feature of fixed assets is said in first sentence. It means that it is durable (lifetime by convention more than one year) + used repeatedly and continuously (example coal). Is the list of fixed assets - mentioned in this paragraph - exhaustive?

19.9 Inventories: Is the first sentence not sufficient? The second sentence is difficult to read and seems to say the same as the first one.

19.10 What is considerable value? What is real value?

Non-produced assets

19.12 What are environmental assets? Mention!

19.13 What does it mean ‘realise this price difference’? This has to be explained in this paragraph.

19.14 Again, the concept of net worth is mentioned but not yet explained. Is it not essential to identify goodwill and marketing assets also in the case when an entire unit is purchased?

2. The structure of the capital account

Saving

19.15 Why not start with the asset side? Net saving, gross saving? Starting with the liabilities side is compiler oriented, not user-oriented. Why including cash (cash is part of financial assets)? (i) General definition: saving is ...; (ii) then explain two cases: saving positive, saving negative.

Capital transfers

19.16 Why not in cash and not in inventory?

Changes in net worth due to saving and capital transfers

19.18 In red: What about liabilities?

Acquisitions less disposals of non-financial assets

19.19 In contradiction to 19.18

19.20 Does not comply with table 10.1. Where is heading net capital formation explained?

Tables and Charts

1) Why split Table 10.1 (page 2 and Page 3)?

2) Why not more simple table showing relationship?

19.23 This paragraph should be at the beginning as it explains gross/net.

19.24 Statement in the paragraph (will be zero) does not comply with the numerical example.

Net lending/net borrowing like in Table 10.1

19.25 Has lending/borrowing been defined? Do not understand the third sentence. It refers to financial assets/ liabilities.

19.26 Difficult to explain this here because the financial account has not been introduced. Again refers to financial accounts (lending/borrowing).

B. Gross capital formation

19.28 Why so many repetitions? See paragraphs 19.21, 19.29.

- 19.29 Why first fixed assets, then non-produced assets. The second sentence is repetitive.
- 19.30 See paragraph 19.8.
- 19.31 The example with the washing machine is not so clear.
- 19.33 Assets equal fixed assets?
- 19.34 Why not to use the same terms as subheadings “Improvements to existing assets” and “Costs incurred on acquisition and disposal of assets”?
- 19.35 periods
- 19.36 Why resident producer? Could it not be any institutional unit (dwellings)? Indicate exactly where treatment of costs is explained.
- 19.38 Why not to merge with 19.31?
- 19.39 Repetitive and very long.
- Improvements to existing assets***
- 19.44 Not only repairs: repairs and maintenance.
- Costs incurred on acquisition and disposal of assets***
- 19.46 Is it really the case that delivery and installation is not included in the purchase price? Taxes as costs?
- 19.47 What are ‘these costs and initial price of asset’?
- 19.49 Why not earlier (as an overview)?
- 19.50 Repetitive. The term write-off is misleading (consumption of fixed capital).
- Time of recording***
- 19.51 Fixed asset
- 19.52 These are not exceptions because the same principle applies. Trade advance? Work in progress.
- 19.54 Is the term ‘communal effect’ somewhere explained?
- 19.56 Own communal use, communal property of the group? Why groups of households?
- 19.57 Is the term ‘private finance initiative (PFI)’ explained? Why not to use PPP as recommended?
- 19.59 The equation described should be shown earlier.
- Transactions in fixed assets***
- It might be useful to show the classification of fixed assets in a table.
- 19.62 is repetitive
- 19.63 to 19.65 See Table 10.2; should be treated at the beginning.
- 19.65 Are tangible and intangible assets explained earlier?
- 19.67 Why not to include the reference in a footnote? Also in other paragraphs.
- 19.79, 19.80, 19.86, 19.144: These paragraphs are repetitive.
- 19.100 What is ‘experimental’ development?
- 19.166, 19.169: Why not earlier?
- 19.199: Why a reference to a tax code here?