Comments on draft SNA chapter:
Chapter 11: The financial 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 11 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:

Structure

Although the chapter has been revised according to the outcomes of the AEG discussion, there is concern within the ABS that the omission of the extensive preamble included in old chapter 11 without substantial revision to the remaining text makes this chapter less readable and understandable. The old preamble also set up the reader for chapters 12 and 13 to some extent. The cross references to new chapter 26 and other places are expected to provide a diligent reader with the full picture, but this is not fully materialised, and makes it hard going.

We suggest the editor attempt a revision with a view to cross linking or defining in situ every unexplained term raised and cross linking or providing a rationale for the recommendations. If this is too messy or difficult, consideration should be given to reinstating the preamble, perhaps in the form of an introduction to chapters 10, 11, 12 and 13.

Asset boundary

The discussion in 11.18, 11.19, and 11.21 could benefit from a clear statement of the treatment of "liabilities", "provisions" and "contingencies" in core accounts and supplementary tables, and the principles on which the inclusion/exclusion is recommended. The text develops a case along the lines of known/unknown size and probabilities of payment but does not deliver a ‘punchline’. For example, provisions as defined should be recorded as assets/liabilities in the System at ‘best estimate’, because it is certain that future payment will be required without a quid-pro-quo. We would also suggest that 'constructive obligations', which are not legal liabilities but are regarded as certain by both parties should also be recorded as assets/liabilities in the System.

Consolidation

There is an unsatisfactory and disconnected discussion of consolidation, see table 11.1 (aggregates are unconsolidated), 11.14 (subsectors and consolidated financial sector), 11.37 (description of various practices without a recommendation), 11.46 (interbank deposits).

At a minimum a recommendation need to be made, and the principles for doing so explained. Recent work by the OECD WPFS might be relevant here. In doing so, it should be noted that the total aggregates shown in table 11.1 do not reflect total activity in those instruments, as data are not available for households, intra level of government transactions and intra-group transactions of trading corporations in most countries. To this extent, an unconsolidated account cannot be compiled.

Deposits

We remain concerned that there is no clear internationally acceptable definition of a deposit that discriminates this instrument from loans. Therefore places in this chapter that discuss deposits do so in a vacuum. Although deposits cannot be defined there are some principles and conventions which may assist implementers, and these should be enunciated before any detail is discussed.

A discussion of why "deposit money" is important for some economic analysis, and the two dimesnions (institutional and instrument) of the broadening concepts of deposit money may assist implementers.

Equity

The statement in 11.23 that shares cannot be equated with identified claims over the designated institutional units is not quite right. It is true in commercial accounting where the accounting unit is the corporation. But in our view the accounting unit in SNA is the economy/sectors of the economy; under this view corporations are born, live and die. Shareholders have a claim on the residual net worth, and thus in SNA accounts a symmetrical asset/liability pair for equity makes sense. This is also the view of the drafters of BPM, so 11.23 should be reconciled with BPM.

Rationale

In a number of places prescription without a stated principle occurs. The ones we have noted are

11.50 debt securities (there are a lot of undefined terms and fine detail without principle),
11.57 and 11.63 (short/long classification based on original, not remaining term to maturity; it would be worthwhile discussing a convention for revolving instruments),
11.70-71 (excess dividends),
11.75 (definition of deposit substitute, money market instrument, and why a real

estate fund should be classified to the financial sector),
11.83 (the wealth of discussion concerning standardised guarantees in the AEG is not reflected in this paragraph)
11.99 (why pension entitlement funding should be separately identified from other accounts payable/receivable).

Measurement Issues

11.25 Household sector measurement. The emphasis should be on necessary and sufficient coverage, not on comparisons with the more intensive data required for measurement of financial corporations. The paragraph reads as an apology for the use of counterparty rather than direct measurement, which is the wrong message.

11.35 The text would benefit from a discussion of commercial accounting standards (netting only when there is a legal right to do so).

11.80-81 are correct but should be expanded to discuss issues to do with recognition of both claims (payable) and premiums (receivable) by insurers.

11.87 A discussion of how SNA recording of derivatives differs from commercial accounting treatment would be helpful.

Part II: Comments on specific draft paragraphs or passages

In your review of draft chapter 11, 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. One of the points that has been under discussion even as the chapter was being draft was the treatment of inter-bank deposits. Are you satisfied with the inclusion of inter-bank deposits under currency and deposits for the reasons explained in section C2?

Comment:

We do not believe inter-bank deposits should be recorded in this way – in our view, they should be treated as any other deposit (and inter-bank lending treated as any other lending), so we do not find the reasons put forward to be convincing. Furthermore, the use of the term inter-bank deposits is a misnomer as it is inter-bank positions (both deposits and loans) that is being discussed.

2. Is there sufficient, too much or too little detail on the different types of debt securities in section C3?

   Comment:

The detail is OK but lacks context and principled discussion

3. Is the coverage of the items related to insurance, pension and standardised guarantees satisfactory? (There will be an overview of all items relating to these schemes in chapter 17 on Cross-cutting and Other Special Issues).

   Comment:

On its own the standardized guarantees discussion is thin but references to Ch17 may overcome this. Also, the AEG discussion included significant discussion of guarantees by government, not only with respect to financial intermediaries as stated here.

4. Sections F to I describe briefly other possible dimensions to the accounts.

   Comment:

We are not sure which sections this refers to?

5. Do you agree to moving the section on flow of funds from this chapter to one (chapter 26) dealing with the link between the SNA and monetary and financial statistics?

   Comment:

Ambivalent – Ch 11 has a structural issue, not addressed by Ch. 26. See general comments

Part III. Other specific comments

11.4 - This para states that the second pair of entries in a quadruple entry system always appear in the financial account. For transfers in kind, there are no generally no obligations, even conceptual ones, leading up to the transfer because there are no claims to be settled, thus there are no financial account entries.

11.11 - Add "For any particular time period" to the beginning of the para because status will change over time.

11.16 The discussion of net lending is ok as far as it goes, but it should also go on to demonstrate the demands on particular instrument markets of the net lending in the context of a chapter on the financial account.

11.28 - This para states that for some financial instruments, eg bonds, the difference in prices over time are taken to represent interest. Accruals of interest may affect the value of a bond, but there are also likely to be other market influences on the bond's value (eg, perceived creditworthiness of the issuer, relationship between market interest rates and the rate implicit in the arrangements of the bond).

11.29 - Accrued but unpaid interest and FISIM should both appear in the Financial Account.

11.43 - Reads like gratuitous advice... replace with something along the lines of... the total of currency and deposits is a mandatory item in the system....

11.54 - Interest accrual. This discussion could benefit from a discussion of debtor vs. creditor approach and cross referencing BPM.

11.55 - Repos. A discussion of the consequences of the recommendation, including potential double counting and accounting for negative positions, is necessary.

11.72 - This para refers to reinvestment of earnings on foreign direct investment, but does not make reference to the recording of reinvested earnings being recorded on investment in collective investment institutions - nor is any reference made in paras 11.74 - 11.75.

11.74 - Investment Funds. Breaking good classification practice (a counterparty classification residing in the instrument classification) in order to address a timeliness of data issue does not seem to be the correct answer. The timeliness issue will have to be addressed in any case.

11.82 - Pension entitlement definition. Suggest replace "a fund designated by the employer" with "a fund as determined by country practice". In Australia we have "fund choice" legislation.

11.85 - It is not clear whether separate identification of Employee Stock Options are or are not a mandatory part of the system.

11.97 – It is not clear on the treatment of an employee stock option if it is traded - whether it remains classified as an ESO when it is no longer held by the employee and if it changes classification, how and when.

11.98-101 - Prepayments not elsewhere classifiable should be mentioned somewhere in here.

11.101 – For clarity, we suggest that this paragraph be rewritten along the lines of “Values used to arbitrarily balance the financial account with the balancing item on the capital account (net lending) should not be included in this instrument". This begs the question of how to show the errors and omissions!