Comments on draft SNA chapter:

Chapter 17: Cross-cutting and other special issues

Deadline for comments: 1 September 2007

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This three-part template allows you to record your comments on draft chapter 17 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.

There is no file comparing existing text with draft text for this chapter because the draft is all new text.

Save this template and send it as an attachment to the following e-mail address: sna@un.org

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:

Looking at the chapter as a whole it seems to be not a convincing idea to bring together such heterogeneous sections in one chapter. It would be much more straightforward to present parts 1 to 3 in one separate chapter (on insurance, pensions and guarantees), to integrate part 4 into the chapter on financial assets (financial account) and to include part 5 into the chapter on non-financial assets (production account).

Most of the comments are related to the financial issues as they are described in part 4 (on flows associated with financial assets and liabilities) and in parts 1 to 3 (on insurance, guarantees and pensions).

In the parts on insurance (1 to 3) there needs to be recognition of the relationship between life insurance and pension fund reserves in the SNA and the accounting treatment of insurance contracts. A table showing the relationships between the key financial "SNA items" and the accounting terminology could be included. Opinions should also be avoided on how an industry or product may or may not work and policy statements.

The link between the topics is not always obvious (for instance, how does the section "Annuities" relate to the previous ones?). A general scheme at the beginning of the insurance part presenting the different kinds of insurance may help the reader.

1. Insurance and social insurance other than pensions

Part 1 of the chapter discusses insurance and social insurance other than pensions. It is not clear to the reader why not to start with describing insurance as a whole and then to break it down into categories.

We would also like to have pensions as a section in part 1 (part of social insurance schemes) and loan guarantees as part 2 of this chapter. Alternatively, it might be feasible to have insurance (direct/re) in part 1 and social insurance in part 2. By the way, the title itself is misleading as it speaks about *insurance* and social insurance other than pensions.

The concept of equalisation provisions is discussed in this part (paragraph 17.38, 17.42). First, it is not properly explained. Second, the recording of equalisation provisions is still disputed in the context of international accounting standards.

Furthermore, the treatment of reinsurance is insufficient. Especially, the treatment in financial accounts is not discussed at all. How should such claims be classified? Should these intra-sectoral flows or positions be classified as loans between insurance corporations? As long as the accounts are compiled on a non-consolidated basis and/or the reinsurance is towards a non-resident their recording cannot be suppressed.

The accounting examples in part 1 are illustrative but not complete. For the reader it is important which (quadruple) accounting entries have to be made. In this context, it is not sufficient to present only the entries for the non-financial transactions but also the corresponding financial transactions. Only in this form, it is possible to assess the impact of the transactions on net lending/net borrowing and also on balance sheet items.

Many references are made on imputed services (for instance, paragraph 17.71) or on imputed contributions (paragraph 17.72). Such imputations should be minimised in the accounts. This may be a key element in the ESA95 revision.

It is not clear to us which difference should be recorded in the financial account. Following a quadruple booking entry system no differences should be recorded net (paragraph 17.77).

The tables might be better readable if resources and uses are presented on one page. For the accumulation accounts the headings changes in assets / changes in liabilities should be used.

It is not clear why annuities are treated at the end of part 1. They are only one specific form of a life insurance policy. The example in the text is rather confusing. Would it not be better to describe one example with some variations?

2. Loan guarantees

The ECB was much involved in the work on the recording of guarantees in the new SNA. However, we have still some comments on the current draft.

Why do the three classes of guarantees only apply to guarantees provided for loans? Guarantees could also be linked to debt securities as indicated in the text. Therefore, we would be in favour to use the term '*guarantees*.'

Why is the text on one-off guarantees in paragraph 17.103 shown in brackets? We assume that the treatment of one-off guarantees was broadly accepted.

We would be in favour to show at least for standardised guaranties an example with accounting entries, as has also been done in other parts of the chapter.

There seems to be a contradiction in paragraph 17.111. A unit within (general) government cannot be treated as a financial corporation.

3. Pensions

Some of the conclusions of the joint Eurostat-ECB Task Force on Pensions could be incorporated, possibly at a later stage of the revision process.

It may be more straightforward to start with the description of Table 17.10. Table 17.10 covers all pension schemes and provides a breakdown of the schemes according to various criteria.

It would also allow for a comprehensive discussion of the different transactions (as listed in the rows of the table), other flows and positions. In the context of other flows, model assumptions could be discussed like the assumptions to be made for the derivation of actuarial estimates (like the input data, the discount and wage rate, and the choice between ABO and PBO). This approach would help the reader to find his way through this rather complicated part. The existence of some guidelines regarding the assumptions on actuarial estimates is very relevant to ensuring some international comparability.

The question of what appears in the core accounts and what is supplementary comes better at the end, as now, so at the beginning we would insert a table with headings similar to those in T 17.10. Then, in place of the transactions, other flows, etc down the side, the table could briefly describe the nature of the schemes. That would also be a way of dealing with what we find a confusing terminology, namely to use 'social' to describe schemes in which the government plays no role. At least, an explanatory table at the start would clarify what follows.

There is still the tendency in the text to clearly separate social security pensions and defined benefit (government) employment related pension schemes. While the accounting example for social security pensions shows only the distributive transactions, the corresponding example for defined benefit schemes is quite comprehensive suggesting that all transactions, other flows and positions for these schemes can be compiled and included into the standard accounts. It is preferable to explain that for all pension schemes conceptually the same accounting principles apply but that specific flows and positions will only be shown in the supplementary table. Therefore, it would be much easier to explain the approach if the supplementary table is explained at the beginning.

It may not be correct that only for employers’ contributions imputations are needed. From the work in the Task Force such ‘imputations’ have also to be made for employees’ contributions and also for social security contributions. In this context, another question arises how to record transfers from government units (usually central government) to social security funds or government employer pension schemes.

Again the accounting examples do not fully show the financial account entries.

To conclude, a new introduction to this part should replace Section J and should include the agreed changes:

- The distinction between funded pension schemes sponsored by general government which should be recorded in the core national accounts and unfunded schemes which should be recorded in the core national accounts or in the supplementary table on pensions and the criteria for unfunded government employer pension schemes to be recorded only in the supplementary table;
- Define funded and unfunded pension schemes in the framework of SNA stocks and flows;
- The definitions of funded and unfunded schemes should follow the “possible compromise on the treatment for pension schemes in the updated SNA93”: all pension schemes which are not government-sponsored will be recorded in the core accounts irrespective of whether they are funded or unfunded;
- Include the criteria to separate social security pension funds from unfunded government

employer pension schemes
- Pension liabilities of social security pension funds will be recorded only in the supplementary table and not in the core national accounts;
- Flexibility in the treatment of unfunded pension schemes sponsored by general government for all employees and the recording either in the core national accounts, or in the supplementary table;
- Review of measurement of implicit pension liabilities based on SNA standards, using the *accrued-to-date liability concept*;
- The logic of the supplementary table as a double entry table showing the stocks, various transactions, other flows and balancing items, with the columns showing the types of pension schemes, together with an review of the value of this table to users; and
- Define defined-contribution schemes and defined-benefit scheme;

4. Flows associated with financial assets and liabilities

Part 4 deals with flows associated with financial assets and liabilities. For the reader, it is difficult to understand why these flows are discussed in this chapter. It fits better into chapter 11 (the financial account) or chapter 26 (the link to financial and monetary statistics). Furthermore, issues related to financial services and investment income associated with financial assets are covered, which could easily be integrated into chapter 6 (the production account) and chapter 7 (the distribution of income account).

We do not consider this section sufficiently mature. The title leads the reader to expect paragraphs on market valuation of transactions, the timing of recording, the distinction between flows and 'other' changes, and the like. In fact it is mostly about financial service charges, interest accruals, and nominal and real revaluations. These are important matters, but they seem best dealt with elsewhere, notably in Chapters 6, 8, 11 and 12. While we can see that there may be room for a 'cross-cutting' section on financial intermediation (and would be prepared to draft one if you wish), we think that it should be somewhat different from this text.

We have many specific points on the draft. A few of the more important are:
- The introduction (17.194-196) seems unnecessary. In case it would be included, it should be consistent with paragraph 4.91.
- 17.198 is about an aspect of interest accrual, not about service charges despite the subheading
- 17.200 introduces a difficult point about the treatment of costs of owner occupation without explanation
- 17.202-203 do not mention currency (=banknotes and coins), an important class of non-interest-bearing financial instruments and which (if denominated in national currency) is not subject to nominal holding gains/losses (though this omission is rectified in 17.212)
- 17.216 seems to say that lending is not a productive activity, although a service charge is attached to it
- 17.218 seems to say that an account with a retailer that charges interest attracts the FISIM treatment (there may of course be a quasi-financial service element in the interest charge, but in practice FISIM is confined to financial corporations in S.122-123)
- Later paragraphs concerning dealing margins seem to use the word 'intermediary' to mean 'middleman' rather than an entity engaged in financial intermediation in the sense of the system. Dealing in financial instruments is not an intermediation activity, though of course financial intermediaries may undertake it."

a. Financial intermediation and financial services

Part 4 of chapter 17 defines financial intermediation and refers to financial services according to various types of financial assets. It starts with a rather imprecise definition of financial intermediation. In substance, it is said that financial intermediation is the activity of matching the needs of borrowers with the desires of lenders (paragraph 17.195), which also encompasses financial risk management and liquidity transformation. For instance, it is not clear what is meant with risk management. Would it not be useful to outline the various types of default risks and price risks in a way that it covers all financial intermediation activities?

How to measure risk management as a financial service. Similarities between banking and insurance business should be explored and should help to compile production estimates. In the case of insurance only a small part of the risk premium is seen as production (see part 1 of this chapter). Similarly, the difference between the observed interest rate charged for a loan and the inter-bank rate as the risk-free rate might cover the financial service, but also a part of the risk premium (default risk) received by the bank and it should be questioned whether this part should be treated as FISIM.

A clear definition and description of financial intermediation would also facilitate the explanation of the charges for financial services including explicit and implicit charges. A more systematic description of the measurement of financial services by financial asset would also help.

b. Investment income and holding gains or losses

It is not clear why the term "financial instrument" is used as it might be better to speak about financial assets and liabilities. This would also allow distinguishing between holding gains on financial assets of one institutional unit or sector and corresponding holding losses on liabilities of a counterpart unit or sector.

Concerning the terminology we are not in favour to use terms like financial instruments, debt instruments or monetary authorities. We interpret these terms as items used in the different IMF Manuals but not in the SNA.

Why are specific financial assets mentioned in the text and others not, like advances, trade credits or 'insurance products'? For reasons of completeness we recommend to include all financial assets and liabilities into Table 17.11 and to show it immediately after paragraph 17.204.

c. Recording flows in financial instruments

On SDRs do we need that for new allocations the appearance has to be recorded first as an 'other change' and then the allocation as a transaction? Is this not too artificial? Wouldn't the recording of a transaction suffice? We would assume that the appearance of an SDR is within the IMF's SDR Department (an internal 'flow'). Economically relevant are the transactions between the IMF and the Member States and among Member States.

On currency, how to deal with service charges (of central banks or financial auxiliaries) to provide/transfer these assets?

In the section 4 on deposits and loans, the concept of FISIM is discussed in various paragraphs (paragraphs 17.214, 17.215, 17.218 and 7.219). It is correctly mentioned that some paragraphs of chapter 6 (the production account) already explain the basic principle of FISIM. Accordingly, the question arises why not to explain exhaustively FISIM only in that chapter? In addition, in any example of financial instruments for which FISIM should be calculated (see paragraph 17.218, for example) there should always be a reference to the fact that FISIM only applies when the lender is a producer of FISIM.

Only the general principles of FISIM should be explained in the SNA. Indeed, different reference rates should be used for every currency in which non-resident loans and deposits are denominated. Similarly different rates should be allowed, depending on the maturity of assets and liabilities. The text should also leave room for further elaborations on FISIM, especially on the treatment of risk. In this context, it is questionable whether only inter-bank rates meet the criteria for a reference rate and are seen as risk-free (see paragraph 17.217). Instead, central bank rates or general government debt security rates may be used. Finally, it is not clear why to compile FISIM only for outstanding balances on a credit card or on an account with retailers (17.218). There seem to be many other examples. Therefore, we recommend to indicate for which type of business (not only type of financial asset) FISIM should be compiled. Altogether, a further elaboration on this issue is needed, but possibly outside the SNA.

A second issue discussed in this section refers to the question how to treat interbank positions. The ECB has already indicated its position not to show interbank positions as a sub-category of currency and deposits. Another issue is raised whether positions should be shown as deposits less loans with a negative sign if necessary (paragraph 17.217). Following the principle that the SNA deals with conceptual issues and not with calculation issues, no discrepancy at all should be shown in the accounts.

Paragraph 17.221 may be dropped.

Debt instruments should be called debt securities. The term ‘instrument’ should be avoided as already indicated. The example in paragraph 17.224 seems to be erroneous: It is said that a financial asset is bought for 102 and subsequently sold for 118. In terms of time interest of such an amount would accrue in approximately three years and not in the short period of time that is suggested. Looking at the example it is still not clear how the mid-prices should be compiled. Should a similar procedure for debt securities be applied as for the compilation of FISIM (different prices depending on currency and maturity)? Even more complicated seems to be the approach to derive implicit service charges for transactions in equity and investment fund shares. At least for unquoted shares and other equity no market prices are available at all. Therefore, suitable options may be sketched rather than describing rather unrealistic methods.

Paragraphs 17.246 and 17.247 are not clear.

The description what the financial asset or liability “other accounts receivable/payable” covers is rather incomplete as it includes trade credits, advances and other accounts receivable/payable. What is meant here are only ‘other accounts receivable/payable’ which arise from timing differences between distributive and financial transactions. The discussion on a case-by-case basis is not exhaustive and will lead to misunderstandings. As already suggested it would be more appropriate to discuss the content of this financial asset in a broader context (in chapter 6).

Part II: Comments on specific draft paragraphs or passages

In your review of draft chapter 17, you may wish to devote particular attention to the passages listed below. For ease of reference, we have identified the relevant paragraphs. For each passage, a Word table is provided for you to use in making your comments. There is a row for general comments at the top of the table. Thereafter please use a separate row for each paragraph on which you wish to make detailed comments.

<u>Chapter 17, Part 1: The treatment of insurance and social insurance other than pensions</u>

Part 1 is based loosely on annex IV of the 1993 SNA, but includes several passages that introduce changes. Some of these are identified below.

1. A refined treatment of non-life insurance is introduced in paragraphs 17.37-17.39 to prevent the variation in claims made each year from affecting output. A different treatment is permissible when the claims are exceptionally large and beyond expectation (17.50). Are these paragraphs clear?

17.37	17.37-17.39 needs redrafting to reflect International Financial Reporting standards (IFRS 4). For example, the last sentence of 17.37 is too simplistic; adjusted claims is not a recognized term in the insurance industry; and the claims equalisation reserve is not a true liability but a provision and not currently permitted under IFRS.
17.38	"Equalisation provisions" should be clearly defined.
17.50	The logic of a capital transfer is not well explained.

* Insert rows in this Word table for each paragraph on which you wish to comment.

2. The simplification in the SNA whereby direct insurance and reinsurance transactions were consolidated was seen to be causing errors especially in countries where all reinsurance was carried out with non-resident corporations (as is often the case). Is the description of how and why to treat direct insurance and reinsurance separately sufficiently clear (paragraphs 17.54-17.60)?

17.58	Exceptionally large claims can be considered as normal business for reinsurers. Such claims should thus be considered as current transfers when applied to reinsurance. 17.58 should clarify this point.
17.59	Please define premium supplements in relation to accounting standards

* Insert rows in this Word table for each paragraph on which you wish to comment.

3. A treatment for annuities as a form of life insurance is introduced in Rev. 1. This is desirable in itself and because it is how regular payments in retirement under defined contribution pensions are recorded. Paragraphs 17.90-17.97 describe this treatment. Are the paragraphs clear?

General comment	Some passages could be deleted to avoid confusion, for example, the last two sentences in 17.91; last three sentences in 17.92 and the last sentence of the penultimate paragraph in 17.96. The relationship between the section on "Annuities" and the previous sections is not clear (cf. general remark on the whole chapter). If it only relates to life insurance policy (as stated in the first sentence of 17.90), the treatment of annuities should preferably be incorporated in the section dealing with life insurance.
17.90	Define premium supplements in relation to accounting standards

* Insert rows in this Word table for each paragraph on which you wish to comment.

Chapter 17, Part 2: The treatment of loan guarantees in the System

Rev. 1 distinguishes three classes of loan guarantees. The first is composed of those guarantees provided by means of a financial derivative (described in chapter 11). The second is composed of the sorts of guarantees where large numbers of very similar guarantees are issued. Another is described as one-off guarantees, where each guarantee is tailored to specific circumstances.

4. The second class is called standardized loan guarantees. A treatment of such guarantees is introduced in paragraphs 17.106-17.111. It resembles the treatment of insurance in several respects. Is the description clear and comprehensive?

General	Drafting changes to 17.99 are needed to better reflect on the economics of guarantees: first

comment	line, Guarantees *could* have; second sentence some borrowers *could* have while others *may* not benefit; and last sentence government activities *can be* linked. As stated in 17.102 and 17.106, the treatment of standardised loan guarantees has much in common with non-life insurance. Shouldn't therefore a concept of "adjusted calls" (similar to "adjusted claims") also be envisaged? A paragraph may be written on this specific point. The treatment of guaranties could be illustrated by a numerical example like in other parts of the chapter. In 17.103, remove brackets. In 17.104, remove last sentence.
17.106	Remove third sentence.
17.111	Define premium supplements in relation to accounting standards

* Insert rows in this Word table for each paragraph on which you wish to comment.

<u>Chapter 17, Part 3</u>: <u>The treatment of pensions in the System</u>

Part 3 describes the treatment of pensions. It does so in some detail, in part because the means by which pensions are provided to persons in retirement varies considerably from country to country.

5. Rev. 1 incorporates a number of changes in the treatment of defined benefit pension schemes. After distinguishing between defined benefit and defined contribution schemes in paragraphs 17.141-17.146, the text describes the transactions recorded for a defined benefit scheme and provides a numerical example. This text begins in paragraph 17.147 and continues through paragraph 17.166. Is the text clear and comprehensive?

General comment	1. Part 3 needs more coherence and clarity in its structure. For example the two separate sections H and J are not complementary.2. The differences between a defined benefit and a defined contribution employer pension scheme (17.140 and 17.144) could be more precisely stated in the opening paragraphs on types of pension schemes. 3. Policy statements should be avoided (for example, last sentence of 17.118; second sentence of 17.119; last two sentences in 17.121; last three sentences of 17.148; and last sentence in paragraph 17.170).4. Expectations should also be avoided. For example, the use of "concern" in 17.121; last sentence of 17.125; last sentence of 17.127; paragraph 17.129; second sentence of 17.144; last sentence of 17.145; last sentence of 17.155; use of term "at first sight" in 17.169 and 17.174; 17.179; and last sentence of 17.192).5. The definition of a defined benefit scheme is not clear (with two different ways to define it: 17.126 and 17.140).6. Some terms are confusing. A strict use of technical terms is required to help understanding this complex topic. 7. The structure of part 3 could be improved by merging sections G and J. 8. All kind of pension schemes in social insurance should be recorded in the supplementary table to reflect the treatment of pensions paid on mostly similar legal rules to those of social security systems.
17.126	Defining defined benefit schemes as schemes in which benefits are determined by the use of a formula (17.126) is too vague and abstract.

17.128	A notional fund can exist in the case of a defined benefit pension scheme. To which institutional sector should the notional fund be allocated?
17.134	The end of the paragraph, relating to the treatment of benefits, is not clear. Do, in all the cases, the *full* benefits (lump sum) have to be registered, even when retirees choose to get annuities with, in these specific cases, correction required to get back to the amount of the annuity? If this is what must be done, the accounting treatment of the correction is not described. A better alternative would to register only the annuity payable by the pension fund. "...reinvested in terms of an annuity or other forms of financial assets" is obscure. The "purchase of an annuity... not connected with pension provision" mentioned in 17.135 is rather unclear.
17.135	This paragraph is not clear.
17.137	This paragraph could be clarified. The dual description in case of "increase (or decrease)" has to be spread throughout the whole paragraph : "...caused by the excess *(or deficit)*...", "...as payable to *(or by)* households by *(or to)* the pension funds."
Table 17.7	Uses and Resources : errors in figures in the column "Total economy"
17.140	Last sentence should be clarified.
17.141 17.142 17.147	The use of somewhat different terms "current service entitlements" (17.142), "current service increase in pension entitlements" (17.141), "current service cost" (17.147) is misleading. In general, is the term "service" really optimal in expressions like "current service" and "past service"? "Past service" applies to individuals who are still working and for retirees; the terminology "past" is misleading.
17.148-17.149	The last three sentences of 17.148 and 17.149 belong to a Compilation Guide. In para 17.148 the actual/imputed contributions should be recorded in the account of the beneficiary even if a period of contribution holiday is granted. The above reasoning is principally in line with 8.69-76 and 8.85, which distinguishes between social insurance and social assistance. There might be borderline cases in Europe for which we would like to consider covering employer defined benefit schemes which are in principle non-contributory. The entitlements are acquired after being hired to various services and their amount depends on the years of service. Legal rules of indexation, execution, etc. are similar to social security systems. The major difference from a basic safety net social security system is the lack of contributions.
17.151	Pension contribution supplements should be referred to as a SNA term and the term mapped to the terminology understood by the pensions industry. What are "continuing employees"? It is not obvious that the past service increase represents the investment income distributed to the employees. Why is that so?
17.155	Last two sentences belong in a Compilation Guide.
17.160	The numerical example belongs to a Guide.
17.163	It is written that 13.5 is the actuarial amount less the actual contribution by households. This is not clear.
17.164	The decomposition of 7.5 in the table is 4.5/3.0, while it is 4.1/3.4 in the text. Is this correct?
17.169	Delete the first sentence and begin the next, The nature of a defined benefit scheme.
17.170	Delete last sentence
17.172-178	The discussion of ABO and PBO is more appropriate to the calculation of implicit pension liabilities, rather than to the specific issue of promotions. To be moved to a Guide which could be provided based on the work currently done by the Eurostat/ECB Task Force on Pensions.

Table 17.9	Is this table really helpful?

* Insert rows in this Word table for each paragraph on which you wish to comment.

6. Paragraphs 17.183-17.193 describe the proposed supplementary table that gives flexibility to countries not to include all liabilities for pensions in the main accounts while still providing the information for analysts. Is the table clear?

General comment	As noted above, this section could be dropped. It belongs to the introduction, in which all the changes new to SNA are reviewed and the supplementary table is introduced and explained within a coherent description of all pension schemes. In other words, it should not be treated as a special case and identified as such at the end of this section. In the introduction, it should follow more closely the "possible compromise on the treatment for pension schemes in the updated SNA93". The supplementary table should contain the (old) SNA codes with the letter S added before the code number (e.g. SD.62 instead of D.62) to reflect the different definitions of rows in the supplementary table. The codes are missing and so are the definitions. We would be in favour of adding them. The different kinds of pension schemes as mentioned in table 17.10 and the relating comments are not clear enough. The distinction between funded or unfunded schemes, which is quite widely used, does not constitute the core of classifying schemes. It is difficult to make the link between funded/unfunded schemes (sometimes mentioned in the text) and defined contribution/benefit schemes. Does part of the sentence "where separate accounting information" refer to defined benefit schemes (is this another alternative definition of defined benefit schemes)? It is not clear in paragraph 17.188 that columns E and F deal with defined benefit schemes as suggested in the table. The same remark holds for the comment on column G. The sentence beginning with "(Column F shows that..." is not clear. Columns F and G seem to refer to the same kind of scheme: defined benefit schemes for government employees (which are in both cases managed by government itself?). So why should they be treated differently in the core national accounts or not?
Table 17.10	Column E "In the financial corporations sector" should be replaced by "Managed by financial corporations" Column F "In the general government sector" should be replaced by "Managed by the government itself"
17.190	One could specify that pension benefits (which are an important item in the sequence of accounts) appear in the core accounts (next to actual contributions by both employers and employees, which are already explicitly mentioned in the text.

<u>Chapter 17, Part 4: The recording of flows associated with financial assets and liabilities</u>

Part 4 describes the flows associated with financial assets and liabilities more extensively than in annex III of the 1993 SNA text, including the services associated with them.

7. The introduction, paragraphs 17.194-17.204, provides an overview of financial services that is wider than the traditional view of financial intermediation as applied to only deposits and loans. Is this wider perspective on financial services comprehensive and is the material presented in a helpful manner?

17.194	Delete last sentence.
17.195	Re-draft as: Financial intermediation is the activity of matching borrowers with lenders. It is carried out by financial institutions offering financial instruments to borrowers and savers. This activity covers financial risk management and liquidity transformation.
17.196	Replace first two sentences with: Some corporations in the financial sector provide services auxiliary to financial intermediation.
17.197	Redraft as: Financial institutions provide and charge for services. For example, dealers in foreign exchange buy and sell at different exchange rates; the difference between these prices represents a service charge paid by the customer.
17.198	Redraft as: In the example of commercial bills, the increase in value between the buying price and the redemption price is treated as interest.
17.200	Redraft first sentence as: Explicit fees for services should be recorded as payable by the unit to whom the services are provided by the institution performing the service. Replace the word rendered by provided and delete the last sentence.
17.201	Redraft first sentence as: An implicit fee in the example of foreign exchange is the difference between the buying and selling price. Take out brackets in second sentence.
17.202	Is the last sentence correct?
17.203	Replace "will always" with "could" and "terminal" with "redemption"
17.204	Redraft as: For equity and investment fund shares, holding gains are standard.

8. A new table summarizing the types of flows that relate to each instrument is given in table 17.11, which is introduced in paragraph 17.205. Is this table helpful?

17.205	In Table 17.11 the entry for monetary gold does not seem entirely accurate. According to paragraph 5.71 of the current draft version of BPM6, monetary gold "comprises gold bullion (including gold held in allocated gold accounts) and unallocated gold accounts with non-residents that give title to claim the delivery of gold." Wouldn't it be clearer to have separate entries for each of these items? According to paragraph 17.248 on the definition of financial derivatives, this instrument gives also origin to buy/sell margins and therefore there should be an entry in Table 17.11 in "Services related to the production account".
17.216	Delete last sentence.
17.217	Are the last two sentences correct?
17.218	Redraft as: The outstanding debit balance on a credit or debit card or an account with a retailer can be subject to interest. These outstanding debit balances should be classified as loans and FISIM should be recorded on them.
17.219	Redraft as: Repurchase agreements are classified as deposits or loans. They give rise to interest that may have a FISIM component and fees are paid. The measurement of flows may be the same as for debt securities.
17.225-17.227	Referring to the creditor approach will confuse the reader; please take out all references to this approach.

Chapter 17, Part 5: Contracts, leases and licences

The 1993 SNA did not have a comprehensive, coherent discussion of contracts, leases and licences. Part 5 brings together the material on the subject discussed under several of the 44 agreed Update issues.

9. Paragraphs 17.261-17.269 describes the three kinds of leases, including a description of resource leases, which are introduced in Rev. 1 in paragraph 2.269. Is the description of resource leases clear? Is the greater clarification of the distinction between operating and financial lease clear?

General comment	To define in the introduction what is a contract (done, in 17.257); a contract for future production; a lease; a license; a permit; a permission; and a rental, within the SNA framework and include here also the definition of a lessor, lessee and licensee. Take out of

	paragraph 17.257, sentences 4-7. The principles determining mobile phones are still not clear. There should be a unified treatment of this case, as rent or a sale of an asset ("**most** cases treated license payments as the purchase of an asset")
17.264	Drop this paragraph, as it is speculative.
17.266	Redraft the start of the last line as, The financial lease records the ownership of the aircraft…
17.267	Delete the first sentence, as it is speculative.
17.270	Delete "However" and start sentence The same treatments.
17.271	Delete "basically"
17.273	Delete 17.273
17.273-17.278	Are these principles agreed for the new SNA? If so, how can they be further applied with all the caveats applied in these paragraphs, to the treatment of mobile phone licences as either rent or as a sale of an asset?
17.283 and 17.286	Remove brackets from sentences
17.285	Delete "However"
17.300	Delete first sentence

10. Paragraphs 17.301-17.305 describe how to record in balance sheets the benefits for each party corresponding to a shared asset. Are these paragraphs clear?

* Insert rows in this Word table for each paragraph on which you wish to comment.

11. Paragraphs 17.306-17.311 describe the treatment of permissions to undertake a specific activity. Is it clear when a permit is to be treated as a tax and when it can simultaneously become an asset?

17.313	Start first sentence with "Similar contracts may exist..."
17.321	Delete, "but in perpetuity"
17.323	Delete, "available in perpetuity"

* Insert rows in this Word table for each paragraph on which you wish to comment.

Part III. Other specific comments

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

If you don't have Adobe Acrobat Version 6 or 7 and would like to make detailed comments, please send a message to sna@un.org requesting a version of the draft chapter that permits 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

17.12	Fourth sentence: is that correct? Isn't it "In this case, any reinsurance commission paid by the policy holder to the reinsurer..."?
17.14	What is the difference between (i) and (ii)? Is the scheme described in (ii) not obligatory (unlike (i))? If this is the difference, it should be explicitly mentioned.
17.23	"other individual insurance" has not been defined and the term is confusing
17.79	"...direct insurance..." to be replaced by "non-life insurance" (?) Is this paragraph really helpful? It is confusing.
17.92	Second sentence: not clear.
17.114	4th line from end: delete 'have been made'.
17.116	The second sentence is an instance of the confusion caused by the terminology: does social security mean 'provided by general government other than to its own employees', and does the following line mean 'the part [provided] by employers including employers in the general government sector'?
17.117	'Employee' in line 7 should be: 'employer.'
17.118	"By contrast" to be deleted.
17.119	End of last sentence ("..., other employer schemes are increasingly...") is unclear.
17.120	Are not <u>all</u> employment-related pensions seen as part of the employment package?
17.121	The sentence that "*no liabilities for the scheme are recognised in the System*". As agreed a liability or an entitlement will be recorded for social security schemes in the supplementary table. Therefore the sentence should be: "*No liabilities for the scheme are recognised in the core system, but they appear in the supplementary table on pensions.*"
17.124	The "dual recording of pension contributions and benefits (D8)" need to be explained. Otherwise, it is difficult to understand why social contributions and pension benefits are recorded as distributive and financial transactions. It should be mentioned that financial transactions have to be recorded for contributions and for benefits. Because users prefer that contributions and benefits are recorded as transfers, they remain so, thus generating a corrective transaction (D8) in order to obtain a correct saving figure.
17.127	The text says that defined contribution schemes are easier to deal with than defined benefit schemes, because there is a fund and imputations are not necessary. We found this a confusing para. We assume that the text is trying to say that contributions to and withdrawals from a defined contribution scheme represent additions to or reductions in financial assets, but are recorded in the secondary distribution of income account as current transfers for the sake of comparability with defined benefit schemes, in which case a reverse transaction is needed to avoid double counting.
17.128	The sentence: "*For both type of schemes, a pension fund is assumed to exist*" should be redrafted by saying that *"for both type of schemes, the System records the existence of a pension fund classified as a financial corporation, even if, in reality, there is no autonomous unit*". In any case, this paragraph deserves further clarification.

17.131 7th line: the undistributed income of CIUs is deemed to have been distributed in the revised System.

17.134 We would recommend deleting the two first sentences: "*However, the benefits payable under a defined contribution pension scheme take the form of a lump sum payable at the moment of retirement. It may be a requirement of the scheme that these sums are immediately converted to an annuity.* It may be the other way round: in general, the beneficiary gets an annuity, but it may be that he has the possibility to get a lump sum. In any case, what will be recorded as *pension benefits* (and, with an opposite sign, as D8) is the sum paid by the pension scheme to the beneficiary, whether it is the lump sum or the annuities, so is there a necessity to have these sentences at all? In the next sentences, it is suggested that, even if the benefits are paid as annuities, first a lump sum in pension benefits should be recorded.

The point in 17.134, that in a defined contribution scheme the benefit is payable as a lump sum on retirement, is important. An alternative approach would be the new pensioner's claim remains on the fund which, as soon as contributions cease, uses his 'pot' to provide an annuity. Instead, the fund apparently pays him off and he has no further claim on the fund. This makes defined contribution schemes and defined benefit (but with a notional 'fund' built up through imputation) schemes less comparable. Defined contribution beneficiaries then leave the fund on retirement, while a defined benefit scheme has liabilities to beneficiaries until they die. If this is correct, the text should say so.

17.138 The first sentence should explicitly refer to paragraph 17.124 so that the reader understands that what is referred here.

17.140 It would be better to reference to paragraphs 17.125 and 17.126 rather than to describe again defined benefit and defined contribution schemes using other new, confusing wording like 'undertakings made by the employer about the level of pensions, etc.'

17.140-159 This section should include some text on how the current service is calculated (accrued-to-date, actuarial calculations, ABO/PBO methods) and also the past service. In 17.141, we propose the following: After "the increase in the entitlements associated with wages and salaries earned in the current period, the current period increase" it could be added: *This is actuarially calculated as the increase in the net present value of the stream of pension benefits obtained in the future (depending on the life expectancy) due to the application of the formula to current wages paid during the period. Two methods can be used: the accrued benefit obligations method (ABO) takes only into account current wages, while the projected benefit obligation method (PBO) anticipates promotions that employees may gain in the future.* After "the past service increase", add: "*this is calculated as the discount factor used in the net present value method applied to the stock of pension entitlements at the end of the previous period.*"

17.143 The term "actuarial estimates" relates to the whole process of estimating the pension liabilities and "actuarial" does not only refer to life expectancy. Therefore, the following text is recommended "*amounts to be paid in retirement using actuarial estimates, based on various parameters, including the expected length of life of the beneficiaries*".

17.146 The section on "transactions recorded for defined benefit pension schemes" is if all defined benefit pension schemes would be described. However, those schemes sponsored by government are not included; they are treated in section D. Therefore you may want to introduce a sentence in 17.146 saying: "The special case of defined benefits schemes sponsored by government is described in section D".

17.191 Cell 2.2 of column G is in white because it is the same as in the core accounts. The cost of labour of government schemes, whether pension liabilities are recorded in the core accounts or not, should always be the actuarially calculated cost of labour and not the actual contributions.