

**Comments on draft SNA chapter:
Chapter 17: Cross-cutting and other special issues
Deadline for comments: 1 September 2007
Send comments to: sna@un.org**

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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:
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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:

Part 1 is difficult to follow. Probably for reasons of efficiency, insurance and social insurance other than pensions are discussed together even if in many respects they are different. Examples of confusion: under the heading Direct Insurance sometimes social insurance is mixed in; the differentiation between life and non-life insurance is not always clearly made; output of social insurance is not addressed; and at times the reasons behind the order of presentation are not obvious. We would prefer the more segregated approach followed in Annex IV of the 1993 SNA.

Please note that some of our comments included in the PDF file are substantial issues.

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.

Chapter 17, Part 1: The treatment of insurance and social insurance other than pensions
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?

General comment	<p>The text is generally clear, but the text including the terms “contributions” and “benefits” begs the question whether social insurance is also being discussed.</p> <p>We believe that further discussion is necessary about the treatment of equalization provisions (Paragraph 17.77(c), as well as paragraphs 17.38 and 17.42).</p> <p>Concerns include that:</p> <ul style="list-style-type: none">• the portrayal of these provisions as a debt arising in the other changes account rather than a transaction seems out of line with general principles;• the treatment as a liability of the insurers is proscribed by International Accounting Standards (IFRS 4, BC 89). The IASB expressed concerns about arbitrariness and misleading views of solvency, and of not correctly showing the role of insurers’ own funds in meeting the costs of catastrophes;• the proposed treatment implies that there is a corresponding asset for policyholders to the (equalization provisions) debt for insurers, which is quite artificial from the policyholders’ point of view. This artificiality can be seen particularly when a catastrophic event occurs and the policyholders generally need to be shown as having their asset reallocated to the
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	<p>subset of policyholders who were subject to the catastrophe; and</p> <ul style="list-style-type: none"> the inclusion of such provisions in insurers' debt may be seen an unplanned extension of the definition of external debt that was agreed by eight international organizations and country debt specialists. The inclusion of liabilities attributed to events that have not happened, and might not happen, undermines the usefulness of debt statistics. (Because a high proportion of catastrophic risk is reinsured and because a high proportion of reinsurance is international, this issue particularly affects external debt statistics.)
17.37	
17.39	Preferable to say "claim" instead of "disaster." Disasters are recorded as other changes in assets.
17.50	The issue at hand is clear. This paragraph still is unsatisfactory because it seems to be limited to nonlife claims.

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

- 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)?

General comment	The text is generally clear and, actually, unnecessarily long because there is no basic difference with direct insurance. The only deviation is mentioned in the first sentence of paragraph 17.59, but no reason is given why life reinsurance should be treated "in a similar way to non-life insurance."
17.54	Click here and start typing.
*	Click here and start typing.

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

- 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	This section is useful and clear (with the exception of a slip of the pen in 17.97d).
17.90	Click here and start typing.
*	Click here and start typing.

* 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 comment	The text is generally clear and comprehensive. Please use consistently the term “standardized loan guarantee.”
17.106	Click here and start typing.
*	Click here and start typing.

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

Chapter 17, Part 3: The treatment of pensions in the System

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	<p>The paragraphs referred to in the question seem mistaken.</p> <p>No full discussion is provided on the relation between the pension fund and the supporting employer. The treatment of actual investment income by the pension fund is unsatisfactory. We think that both property income payable by the scheme and property income earned by the scheme ultimately accrue to the employer, who is fully responsible for the scheme's viability.</p> <p>In 17.113, the service charges seem to be forgotten.</p> <p>In table 17.8, it is a pity that not all transactions are given.</p>
17.147	Click here and start typing.
*	Click here and start typing.

* 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	<p>Several improvements on this section can be made.</p> <p>One issue is that social security is, or at least seems to be, presented as an employee scheme.</p>
17.183	First sentence. The issue is not whether there are designated assets available, but whether government can change unilaterally the conditions under which benefits are granted.
17.184	Second sentence. Whether a private or social security scheme, modern actuarial science makes it equally easy/difficult to make the necessary estimates. Consideration should be given to deleting this as a important reason.
17.185	<p>We understood that there is no element of choice regarding unfunded defined benefit schemes for employees: these have to be recorded in the core accounts. Only if the scheme is not defined benefit in the sense that government can change the benefits at will at any moment in time, flexibility is allowed.</p> <p>If this reading is correct, the chapter should explicitly say so and column G in the table should be adapted accordingly.</p>
Table 17.10	Click here and start typing.

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

Chapter 17, Part 4: The recording of flows associated with financial assets and liabilities
 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?

General comment	Click here and start typing.
17.202	Within other accounts receivable/payable, it could be mentioned that trade credits have implicit interest rates arising from discounts for early payments.
17.203	<p>This paragraph states that “loans...denominated in domestic currency do not give rise to nominal holding gains...” .</p> <p>However, for national-currency-denominated loans, nominal holding losses arise in the exceptional cases of debt refinancing, debt assumptions, and debt-debt and debt-equity swaps. A nominal holding loss is recorded for the loan prior to the loan being replaced by (1) a new loan to the original debtor (loan refinancing), (2) a new loan to a new debtor (loan assumption), or (3) securities issued by the original debtor (loan swap for securities) or a new debtor (combination of a loan assumption and swap). The valuation change takes place before the swap and therefore is recorded for the loan rather than for the securities in the swap. The same principles apply for valuation changes that are recorded for securities other than shares prior to securities refinancing, assumption, or swap.</p>

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

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	
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17.239	<p>17.239 This paragraph is not specific on which securities should follow the recommendations (modified approach) in the paragraph and which ones the recommendations in the previous paragraph. Furthermore, we would prefer to recommend one approach only for the calculation of flows on index linked securities, such as:</p> <p>For securities with indexed interest and/or principal, the accounting for accrued interest follows the same principles as those for accrued interest on variable-coupon securities. At regular periodic intervals, the coupon rate and/or principal are reset in response to movements in the reference index—that is, the commodity price index, share price index, etc. The amount of the coupon—revealed at the beginning of the coupon period when the coupon is reset—is prorated for inclusion in the accrued interest for the reporting period. The entire increase or decrease in principal that results from indexation which is reset at regular intervals should be included in the accrued interest for the reporting period in which the principal resetting took place. Special treatment applies to securities for which the principal is indexed to an exchange rate. Increases or decreases in principal, arising from the indexation, are recorded as valuation changes. (Monetary and Financial Statistics: Compilation Guide, paragraph 5.103)</p>
17.247	<p>We wonder whether the split into two types of transactions (the second on the receipt of reinvestment of earnings) is too theoretical and difficult to apply in practice. Guidance should be given on how the compiler is going to gather the necessary data to record these two types of transactions.</p>

17.255	<p>This paragraph is rather incomplete. For example, it does not mention items that have been paid before they became liable for payment. Other examples of recording of flows in other items included in this category are:</p> <p>Valuation in nominal amount is applied for most subcategories, including settlement accounts, items in the process of collection, provisions for losses on impaired financial assets, accumulated depreciation and impairment losses on nonfinancial assets, and most categories of miscellaneous asset and liability items. The <i>IMF quota subscription</i> (applicable to the central bank only) should be valued on the basis of market exchange rates at the balance sheet dates, and contra-entries for valuation changes should be recorded in <i>valuation adjustment</i> within shares and other equity. <i>Provisions-liabilities</i> (within <i>miscellaneous liability items</i>) should be valued as the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The best estimates of <i>provisions-liabilities</i> should be reviewed and, if appropriate, adjusted at each balance sheet data. Depending on national financial reporting standards, the contra-entries for <i>provisions-liabilities</i> can be recorded as an expense in the profit or loss accounts or in <i>valuation adjustment</i> within shares and other equity. (MFS Compilation Guide, paragraph 5.293)</p>
Table 17.11	<p>The table is useful. We find that the two categories of property income that are not interest or dividends could be mentioned as footnotes, and not by creating two columns with little content.</p> <p>The content in the table has to be revised in light of the comments received, for example, because of the possibility of entries in the revaluation account for loans.</p>

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

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	While the addition of a discussion of contracts, leases and licences is very useful, the text in some cases needs further clarification – as indicated in our detailed comments. Further clarification is needed on when the text refers to the non-financial assets and when to the intangible assets (contract as an asset).
17.263	This paragraph discusses operational leases primarily in terms of equipment. The reference should rather be to non-financial assets, given that operational leases can also refer to structures such as ports and runways etc.
17.269	The paragraph discusses resource leases without indicating specifically that the following section will elaborate on these issues. The text could mislead an uninformed reader to believe that the spectrum should fit in that category.

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

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?

General comment	Click here and start typing.
17.301	Click here and start typing.
*	Click here and start typing.

* 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?

General comment	From the text it is not clear when the tax (that created a right to a specific activity) becomes an asset. The suggestion is made that for government it is a tax receipt, while for the
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	recipient, it is an asset. The text should clearly indicate that a two-step approach should be followed. In the first instance the tax is paid by the permitholder and received by the government while it subsequently in the hands of the holder becomes an asset due to the value that the holder can generate from it. Without this clarification the system will lose the integration between stocks and flows.
17.306	Click here and start typing.
*	Click here and start typing.

* 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>