

**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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Submission date:	10 th August 2007 Click here and enter your submission date

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:

Click here and start typing.

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	<u>We believe that the treatment is quite clear. The fact that you are trying to minimize the fluctuations in the output of insurance companies life and non life due to the occurrence of large and infrequent claims is quite obvious to the reader. However isn't this the reality of the insurance industry? Large claims are considered to be capital transfers in cash not in kind.(Para #50)This we believe should be quite explicit since there are implications for their treatment in the Accumulation Accounts of the Financial sector.</u>
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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)?

General comment	<u>Yes, it is</u>
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* 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	<u>We found Para #90 to #93 very clear and easy to understand. However Para 94 to 96 we found to be unclear and difficult to understand. In para 96 the sentence in order to be coherent should read as follows:” Each year the annuitant receives the sum agreed in terms of the annuity agreement, the liability of the insurance corporation decreases”</u>
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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.

- 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	<u>We think it is clear and comprehensive. However the statement in para #102 appears to be a bit misleading. We feel it should read as follows:” Either the borrower or lender may contract with the guarantor to repay the lender if the borrower defaults “</u>
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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.

- 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	<u>We believe it is. However in para 17.144 there is a typographical error in the last line. It should be remainder. Another typo is evident in 17.145 line 11. The text should read ..” Although these are initially borne by the...”</u>
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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	<u>We find the Table to be very clear. Para 17.184 should read “ Government has the ability “ not possibility Click here and start typing.</u>
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Table 17.10	Click here and start typing.

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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	<u>We feel that this wider perspective is presented in a very helpful manner. Your description of the role of banks in particular in the process of financial intermediation was quite clear and easy to follow. However in para 17.203 and 204 you touched on the concept of holding gains without clarifying in detail what these concepts-nominal, neutral and real holding gains –really mean. We feel some effort should be spent to clarify these at this juncture in the text.. Click here and start typing.</u>
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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	<u>The table is helpful but it appears a bit jumbled and it is difficult to identify each financial asset with the relevant property income etc. If lines were drawn it would make the table clearer and easier to read.</u> Click here and start typing.
Table 17.11	Click here and start typing.

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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	<u>The description of financial leases and operating leases are quite clear. The distinction between them is also well spelt out. In your definition of resource you spoke of a natural resource with an infinite life. We believe that an example or two would be useful at this juncture in the text.</u>
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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	<u>Yes we think it is quite clear. In para 17.302 you indicated that the asset should be recorded on the books of only one company. (with reference to companies operating at different points in time) We presume that it is the one currently in operation and not on the books of those previously in operation</u>
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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	You were quite clear at the outset. “When government issues licenses to limit the number of units operating in a particular field the fees are recorded as taxes in the system.”The confusion begins when you stated that the stream of future income is treated as an asset if the licensee can realize this by on selling (reselling?) the asset.The type of asset is now described as a permit to undertake a specific activity.At this point the distinction between assets and permits become blurred. In para #17.310 you continued “....” it is inherent in the concept that permits will be tradeable and that there will be an active market in them. The permits therefore constitute assets ...Does the tradeability factor determine whether a permit becomes an asset?. We believe some clarification is needed. Para (17.309) confuses the issue
17.306	Click here and start typing.
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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>