

**Comments on draft SNA chapter:
Chapter 3: Flows, stocks and accounting rules**

**Deadline for comments: 30 September 2007
Send comments to: sna@un.org**

Your name:	Peter Harper
Your country/organization:	Australia/Australian Bureau of Statistics
Contact (e.g. email address):	peter.harper@abs.gov.au
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This three-part template allows you to record your comments on draft chapter 3 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.

Especially when providing comments in Part III of the template, you are encouraged to focus on the new passages of the draft text. To facilitate this process, a file comparing the existing text and the draft text is available on the website under the following link: <http://unstats.un.org/unsd/sna1993/projectmanagement/drafts/Chapter3dv2cdv0.pdf>

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:

Overall, the chapter reads well and the new recommendations have generally been incorporated well.
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Part II: Comments on specific draft paragraphs or passages

In your review of draft chapter 3, 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.

Definition of an asset

Questions about the adequacy of the *1993 SNA* definition of an economic asset led to the issue being among the forty-four considered during the Update. An AEG meeting concluded that the 1993 definition did not adequately cover risk, demonstrable value and constructive obligations.

1. Section B, about stocks, opens with a new and fuller definition of an asset than appeared in the *1993 SNA*. Paragraphs 3.18 – 3.28 describe the concepts of benefits and of legal and economic ownership, and then paragraphs 3.29 - 3.30 present the new definition. Are these paragraphs clear?

General comment	Generally the paragraphs are clear
3.29	It is suggested that the words "it is possible to define an assets as follows" be changed to read "an asset is defined as follows".
*	Click here and start typing.

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

Accounting rules: additions from *BPM6*

Section E presents the accounting rules of the System. Text from the draft *BPM6* has been added to the text from the *1993 SNA* in several places. These additions help implement the agreement to align the two manuals where appropriate. Of several additions (see file comparing the 1993 text with the present draft, where they are apparent), two in particular may be of interest.

2. Paragraphs 3.106 – 3.111 discuss quadruple entry accounting. Are these paragraphs clear and appropriate to the SNA?

General comment	Generally these paragraphs are clear
3.108	The paragraph uses the term "liabilities" whereas some others in this chapter use "financial liabilities". Clarification and consistency are needed.
*	Click here and start typing.

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

3. Paragraphs 3.113 – 3.128 are about valuation of transactions. In particular, paragraphs 3.113-3.114 explain how “market prices” should be interpreted. Are the paragraphs clear and appropriate for the SNA?

General comment	Generally the paragraphs are clear
3.126	This paragraph mentions that flows can be valued using NPV. Some clarification might be useful. Only the value of flows involving assets (or liabilities) can be derived using NPV.
3.127	This paragraph refers to the national currency in a number of places. Some economies compile their accounts in a currency (eg, USD) other than their 'national currency' and the references should be to the currency of compilation. This makes the situation more complex, because there will be exchange rate impacts caused by conversion from the national currency to a foreign currency (the compilation currency), which will need to be recorded.

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

Discounted present value of expected future returns

Section E.2 discusses valuation, beginning with the relatively straight-forward cases when actual exchange values represent market prices and then moving to the more difficult cases, including those where market-price equivalents must be used.

4. Paragraph 3.126 notes, as did the *1993 SNA*, that when none of several methods to represent market-price equivalents can be applied, flows and stocks can be recorded at the discounted present value of expected future returns. Does the description of this method strike an appropriate tone given the greater use and acceptance of this method since the *1993 SNA*?

General comment	OK
3.126	Click here and start typing.

Part III. Other specific comments

paragraph 3.8

The last sentence states that 'other flows are changes in the value of assets and liabilities...'. As other flows also cover volume changes, the words 'or volume' should be inserted after value. The same comment applies to the first sentence of para [3.93](#).

paragraph 3.10

I'm not sure that the explanation provided for the two groupings of economic flows is fully adequate. It implies that debit entries are associated with flows that decrease in value. In accounting, debit entries are associated with expenses and increases in assets and it is not clear how the latter relates to a decrease in value. (Even in the case of an expense, it is not clear how 'decrease in value' should be interpreted.) Likewise, it is implied that credit entries are associated with flows that increase in value, whereas in accounting credit entries are those involving receipts and increases in liabilities – again it's hard to associate the latter with an increase in value.

paragraph 3.13

Shouldn't there be a 'fifth heading', transactions showing in non-financial assets (ie the capital account)?

paragraph 3.17

The rules have been specified only in terms of "valuation, timing, classification and grouping" of flows and stocks. It is recommended that these rules should also refer to "recognition" - the recognition occurs according to the definition of flows and stocks and in many ways has to precede valuation, timing, etc.

paragraph 3.17 (a)

It is suggested that the word 'generally' be inserted before the words "that is" in the second sentence.

paragraph 3.31

It seems strange to state that a financial claim can be defined when in the next paragraph, it is a financial liability that is defined (with the claim not defined until two paragraphs later, and then only as a contra-entry to the liability).

paragraph 3.32

The use of the term "financial liability" implies the existence of a "non-financial liability", but the rest of the text is silent on this point.

paragraph 3.33

This paragraph starts off by stating that a "financial" liability may be established by custom and goes on to conclude that such a liability is a "constructive" liability. Should the conclusion not be that it is a "constructive financial" liability? Should a contingent liability be discussed here too in terms of the "recognition" rule referred to above, rather than para 3.45?

paragraph 3.34

As currently worded, only two types of liabilities (as described in the preceding two paragraphs) result in a corresponding financial claim by another institutional unit. On a reasonable interpretation, neither of these paragraphs would include the case of shares or other forms of

equity issued by corporations, which would be treated as "liabilities by convention" or "as if they were liabilities" or just as "liabilities" of the issuer. Amendments are recommended.

paragraph 3.35

Recommend that the words:

"Shares are treated as financial assets by convention"

be changed to read:

"Shares and other forms of equity ownership are treated as financial assets by convention"

paragraphs 3.38 - 3.41

These paragraphs discuss the creation and cessation of assets of various types, yet there is no discussion of how financial assets are created (only how they cease).

The point should be made that assets existing prior to the economic accounts were created as the result of a production process.

paragraph 3.58

It is stated that capital transfers redistribute saving or wealth (third sentence). It might be preferable to delete the reference to saving as transfers of this type (capital) should not impact on the saving of either party to the transaction.

paragraph 3.60

It is suggested that the words 'when it actually does not' in the first sentence be replaced by words that are less suggestive that entries are somehow being 'made up'.

paragraph 3.65

The second sentence of the paragraph should be more explicit: '... prescribes partitioning interest payable on deposit liabilities and interest receivable on loan assets by financial intermediaries...'. FISIM is not as broad as applying to all interest payable and receivable by financial intermediaries.

paragraph 3.68

The 'rules' for allocating taxes to the non-collecting government is different to those in paragraph 5.25 of the IMF's *GFS Manual*. This is a particularly contentious area in Australia and we strongly advocate that the *GFS Manual's* wording be adopted.

The final sentence states that "As a rule one should not go beyond this principle and try, for instance, to allocate taxes or subsidies to ultimate payers or ultimate beneficiaries under the adoption of assumptions". This statement is probably not required and it doesn't really assist interpretation of the foregoing material. The issue being discussed is how to allocate tax receipts to the appropriate level of government. The final clarifying sentence may lead the reader to

conclude that, for example VAT payments should be recorded against the unit that collects the tax rather than the payer of the tax, i.e the household.

paragraph 3.82

The own account consumption of housing services from owner-occupied dwellings should also be mentioned as an internal transaction.

paragraph 3.88

There is a value judgement in this paragraph that should be removed or re-worded.

paragraph 3.92

It is suggested that the words 'On pragmatic grounds' be inserted at the beginning of the last sentence.

paragraph 3.169

In the first sentence, suggest that the word "significant" be changed to "meaningful" as the latter is more appropriate.

paragraph 3.170(vi)

Refers to an asset being consumed in the production process - assets can cease to exist during a reference period for other reasons - for example by being 'otherwise destroyed, either through externalities, or through the unilateral action of the asset holder'.

paragraph 3.172

The last sentence of the paragraph is not clear.

paragraph 3.184

While it is important that transactions involving goods and service not be consolidated, we fail to see how the analytical usefulness of the accounts is enhanced by not consolidating transactions in financial assets and liabilities and associated income transactions.