

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

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

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Submission date:	Click here and enter your submission date

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:

Efforts have been made to align this chapter with Chapter 3 in the BPM6 which is commendable. However, significant differences do remain which might warrant further harmonization such as the sequencing of the chapter (e.g. from stock to flows, etc.), use of terminology (e.g. accounting principles versus accounting rules) and definitions (e.g. “positions” versus “stocks”).

The introduction may be cut down as many parts are exactly repeated later. For example, definition of assets (3.5,3.29), transactions (3.8,3.49), other flows (3.8, 3.93), balancing items (3.10, 3.101).

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	
3.6	<p>This sentence should be re-written as one cannot say that consumer durables or even human capital are not owned. Rather by convention, it is not recognized as an asset</p> <p>"The coverage of assets is limited to those assets used in economic activity and that are subject to ownership rights; thus for example, consumer durables and human capital, and also natural resources that are not owned, are excluded."</p>
3.7	<p>Appearance (of natural resources and others) is also an economic flow</p> <p><i>Economic flows reflect the creation, transformation, exchange, transfer, <u>appearance</u> or extinction of economic value; they involve changes in the volume, composition, or value of an institutional unit's assets and liabilities.</i></p>
3.18	<p>It is better to call production, consumption and accumulation as three economic <i>functions</i>, not three economic activities. Eating is not economic activity in the ISIC sense.</p>
3.18	<p>In the definition of assets:</p> <p><i>An asset is a store of value representing a benefit or series of benefits accruing to the economic owner by holding or using the entity over a period of time. It is a means of transferring value from one accounting period to another.</i></p> <p>It is not clear why the second sentence is needed.</p>
3.19	<p>We are unsure about the meaning of this sentence:</p> <p>Production and accumulation involve benefits postponed to future periods.</p>
3.20	<p>The use of the word "entity or entities" in the definitions for legal and economic ownership might be reconsidered because it refers to</p>

	“objects” like goods and services, natural resources, financial assets and liabilities. By contrast, in the definition for institutional unit it is used to refer “social constructs” or “things” as “an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities”.
3.33	This para is too abstract. Please provide some examples of constructive liability
3.34	Please provide some examples for the case written in the second sentence.
3.58	The sentence in the old text " capital transfer, which may be either in cash or in kind, ..." should be restored.
*	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	Click here and start typing.
3.106	Para 3.106 – 3.111 are written so abstractly that it is not easy to follow. A simple example may convey a lot more than words. Debit and credit are not explained and are not even related to uses and resources.
3.111	Here The rest of the world is viewed from the point of the rest of the world, not from the point of the domestic economy as written.
*	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	
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3.113	<p>This sentence in para. 3.71 from 1993 SNA could be added.</p> <p style="padding-left: 40px;">3.71. ... These transactions are recorded at the actual exchange value agreed upon by the two parties.</p> <p>Moreover, the old text states that prices should be recorded at the contractual prices, even though at the time of transactions, market prices differ from contractual prices.</p>
3.114	
3.118	<p>Para. 3.118 in the new text seems to discuss the special case in BOP, which may confuse readers about a general principle that contract prices are the basis of valuation that may not be clear enough in para 3.113.</p> <p>“3.118 Market valuation also poses problems for transactions in goods in which the contracts establish a quotation period often months after the goods have changed hands. In such cases, market value at the time of change of ownership should be estimated. The estimate should be revised with the actual market value, when known. Market value is given by the contract price even if it is unknown at the time of change of ownership”.</p>

* 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	Click here and start typing.
3.126	Click here and start typing.

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>