

**Comments on draft SNA chapter:
Chapter 4: Institutional units and sectors**

**Deadline for comments: 21 August 2007
Send comments to: sna@un.org**

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This three-part template allows you to record your comments on draft chapter 4 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/Chapter4dv2cdv0.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:

Good

Part II: Comments on specific draft paragraphs or passages

In your review of draft chapter 4, you may wish to devote particular attention to the passage listed below. For ease of reference, we have identified the relevant paragraphs.

Please use the space provided to the right of the paragraph number to make your comment.

1. Section A, paragraphs 4.10 – 4.12:

The definition of ‘residence’ was slightly changed in the 1993 SNA Rev.1 by introducing ‘predominant’ before “economic interest.” Because residence is principally a BOP term, the text in paragraphs 4.10 – 4.12 has been taken from *BPM 6*. Do you consider the definition appropriately described? Is it clear to a national accountant?

4.10	Add the qualifier from the BPM6 “The introduction of the terminology “center of predominant interest” does not mean that entities with substantial operations in two or more territories no longer need to be split” (Para.4.120, BPM6)
4.11	OK.
4.12	For clarity, add certain essential aspects of residence as in 1993 SNA (see 1993 SNA, paragraph 4.16)

2. Section A, paragraph 4.20:

A decision tree allocating units to institutional sectors and sub-sectors has been added as figure 4.1. It is first referred to in paragraph 4.21 to the 1993 SNA Rev.1. Do you think it is useful?

4.21	OK
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3. Section B, paragraphs 4.52 – 4.54:

The expression ‘ancillary corporation’ in the 1993 SNA did not fit neatly with the discussion on ancillary activities discussed in draft chapter 5 of the 1993 SNA Rev.1. Therefore the term ‘artificial subsidiary’ has been introduced. Do you agree with this new terminology?

4.52	We agree. The 1993 SNA also uses the term “artificial subsidiaries”(1993 SNA Para. 4.44)for ancillary corporations This is a good terminology to distinguish them from ancillary activities
4.53	For the regional accounts, the consolidation of these units with their parents might present problem if they are located in different geographic regions,
4.54	OK.

4. Section B, paragraphs 4.64 – 4.72 and section C, paragraphs 4.82 – 4.83

Material from draft chapter 21 (public sector) of the 1993 SNA Rev.1 on control of corporations and of NPIs by government has been brought together. Do you consider this useful?

Yes, please cite the source (GFSM, 2001, Coverage and Sectorization of the Public Sector for, December 2006) for further reference.

4.64	OK
4.65	OK.
4.66	OK.
4.67	OK..
4.68	OK.
4.69	OK.
4.70	OK.
4.71	OK.
4.72	OK.
4.82	OK.
4.83	OK.

5. Section D, paragraphs 4.89 – 4.90:

NPIs are distinguished as a sub-sector of the non-financial corporate sector in the 1993 SNA Rev. 1. Other units in the sector have been labeled 'For Profit Institutions' (FPIs). Do you agree with the new terminology introduced in paragraph 4.89? Do you agree with the full sub-sectoring introduced in paragraph 4.90 and shown in table 4.1?

4.89	OK.
4.90	OK.

6. Section E, paragraph 4.94:

The new sub-sectoring of the financial corporations sector, including again by NPIs and FPIs, has been introduced in paragraph 4.94. Do you agree with the new classification?

4.94	OK.
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7. Section F, paragraphs 4.118 – 4.119:

Do you consider the clarification of the role of social security funds in paragraphs 4.118 – 4.119 consistent with the GFSM? Paragraphs 4.118-4.119 set out the role of social security funds while trying to stay in line with text in the *GFSM* and draft chapter 21 of the 1993 SNA, Rev. 1. Is the text appropriate and clear?

4.118	For clarity it should be preceded by the sentence in GFSM “ All social security schemes are organized by government units” (2.14, Annex to Chapter 2, GFSM)
4.119	For clarity, the first half of the sentence should be modified “For a social security fund to exist, it must be separately organized from the other activities of the government units” (2.15 Annex to Chapter 2, GFSM) Also add that the primary receipts of social security schemes are social contributions supplemented by government transfers.

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>

Paragraph 4.46

It states “Two quite different types of units exist **that are both referred to as holding companies**. The first is the head office...” These types of activities are described in ISIC rev 4 in section M class 7010 ...The other type of holding company is described in ISIC rev 4 in section K class 6420 ...”

It is not appropriate to label both head offices and proper holding companies as “holding companies. Similar to ISIC rev 4 the NAICS describes head offices as providing general management and /or administrative **support services** to affiliated establishments. They are more in the nature of ancillary activities. While “holding companies are not ancillary units; the functions they perform to control and direct subsidiary companies are not ancillary activities...Holding companies will all be treated as “other financial institutions” (#25a *The Full set of consolidated recommendations* for update of SNA 1993)

4.6 – last sentence

This point is out of place and in my opinion requires more elaboration.

The paragraph focuses on legal and social entities recognized by law or society independently; however, this last sentence relates to a point where the system deviates from this legal and social independence and recognizes an economic independence.

Since this is a different subject, I feel this should be a separate paragraph. I would suggest it be placed after 4.9 and begin by explaining that even though there is no legal separation in some cases, there is sufficient information that a unit can be separated into economic units. Then explain briefly where this is the case, as more detailed explanations follow later. (Incidentally, I have always wondered why it is not possible to have a quasi-corporation created out of an NPI? Why is it limited to only households and government?)

4.8. 4.18, 4.73 and 4.75 (d) Non-profit institutions

It is not uncommon to find small non-profit units that are set up by a small number of individuals who effectively hire themselves as the principal or possibly only employees of the NPI. In these cases, the principal source of income, wages and salaries, of those that established the NPI will be from the NPI.

Given this is the case, the wording in paragraph 4.8. 4.18, 4.73 and 4.75 (d) may be too restrictive. I believe it is more appropriate simply to indicate that the surplus cannot be appropriated.

Figure 4 Question used to split between financial and non-financial sectors should include the word “primarily” before produce.

4.52 Artificial subsidiaries This should note that when such entities are resident in a different economy, they are real subsidiaries.

4.55 “The ownership of a corporation is ... **in general**, ownership is diffused among several, possibly very many, institutional units.” (bold added)

Given that the system treats legal entities that are part of a multi-legal entity conglomerate or multinational as separate institutional units, it is not at all clear that **in general** corporations are widely held.

4.60 (b) This condition goes beyond the definition of subsidiary used in FDI and is the basis for a difference in terminology.

4.61 There is some terminology used here that is not in keeping with current general usage and should be changed considering the goal of introducing aspects of globalization into the revised SNA:

- A "Conglomerate" is a corporation that has diversified operations, not just one that is large.
- A "Multinational corporation" includes the entire corporation -- including the owned corporations not just the parent corporation.

I am not sure that the generation analogy works here. Since control can be gained through multiple holdings of equity, it could be that the father, the son and the grandson all hold equity in a single subsidiary. What generation is the subsidiary?

4.69 Second bullet point

- I would suggest dropping the last sentence as being too prescriptive.

4.72 last sentence, “foreign direct **investment** enterprise”

4.91 and 4.109 The last sentence in 4.91 would suggest that the two cases mentioned are equally “unusual” however, the existence of 4.109 suggests that this is not the case.