Schweizerische Eidgenossenschaft
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Swiss Confederation

Federal Department of Home Affairs FDHA

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Economy, State and Social Issues

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Comments on draft SNA chapter
Chapter 6: The production account

<u>§ 6.22</u>:

"The industries that produce <u>they</u> products…" Typo.

<u>§ 6.49:</u>

A schematic illustration depicting the components of "basic prices" and "producer prices" would be an ideal complement to the text and would facilitate the comparison and comprehension of these terms.

Output of Central Bank

<u>§ 6.144</u>

Referring to a distinction between market and non-market based on "how they are paid for", § 6.144 is unclear. The distinction between market and non-market output is based on the concept of "economically significant prices" which in the case of supervisory services by the central bank may prove impossible to assess. One easier way to define it might be to restrict market output to the case where supervisory services are explicitly charged for by the central bank and define the other cases as non-market output. If this is the meaning of "how they are paid for", it should be more precisely stated.

<u>§ 6.145</u>

Due to the practical and conceptual problems raised by the distinction between the three groups of central bank services, we would favor a § 6.145 that more explicitly stresses the following points:

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1. monetary policy services are the primary services provided by central banks (to our understanding);
2. the distinction between market and non-market output, though appealing, could be forgone on cost-benefits considerations or implementation problems such as the occurrence of negative output (likely e.g. if a reference rate methodology is applied to a central bank making an extensive use of repo transactions);
3. in the later case, output should be estimated by the sum of costs, as the second-best solution (consistent with 1.).

Financial services

§ 6.149

Financial intermediation does not appear in the definition agreed upon by the AEG.

§ 6.150

"Risk management" should be each time replaced with "financial risk management".

§ 6.155

Deposit-taking is only one way among others to borrow funds for intermediation. Any other financial liability but AF5 (shares and other equity), AF6 (insurance technical reserves) or AF 7 (Other accounts receivable/payable), can give rise to financial intermediation.

§ 6.157

Restriction of FISIM to the loan/deposit case and financial institutions should clearly be stated as "by convention" or "in practice" as the AEG agreed that "Other instruments may attract FISIM but will not be included unless a clear allocation to users is possible".

§ 6.158

The following definition of the reference rate was agreed upon by the AEG:
"The reference rate used in the compilation of FISIM should be a rate that has no service element in it and which reflects the risk and maturity structure of the financial assets and liabilities to which FISIM applies. It is recommended that different reference rates should be used for transactions in other currencies. "

The paragraph could be rewritten as:

"The reference rate should be a rate that has no service element in it and which reflects the risk and maturity structure of the financial assets and liabilities to which FISIM applies. It is recommended that different reference rates should be used for transactions in other currencies. Inter-bank rates may be used to build reference rates, implying that there is often little if any service provided in association with banks lending to and borrowing from other banks. "

§ 6.161 – 6.165

It is our understanding that such margins should be restricted to financial institutions acting as market makers on quote-driven markets. Such restrictions do not appear in the description of “financial services associated with the acquisition and disposal of financial assets in financial markets”. When financial institutions acquire or dispose of financial assets in order-driven markets at bid or ask-prices, they act as price-takers and no provision of services should be considered.

§ 6.161

It is our understanding that restriction of FISIM to the loan/deposit case is a convention. Other interest-bearing instruments may generate FISIM but are at this stage not considered due to allocation issues. We therefore find inappropriate to be as categorical as to state that “However, the service charge made by the financial institution offering a security is not linked to the payment of interest, no matter how it is calculated.” While it is true that financial institution acting as market maker get only paid through their quoted bid-ask spread, they may also offer securities through the issuance of bonds, which may conceptually be FISIM-generating. We suggest to simply drop the sentence.

§ 6.165 + § 6.164

We suggest to drop the reference to property income flows as they are not relevant in this margin context. Reference to property income flows was only necessary to point out the problem of separating margins from interests when the latter are embedded in the price of debt securities (§ 6.163).