Chief Statistician of Canada
Statistics Canada

Statisticien en chef du Canada
Statistique Canada

Ottawa, Canada
K1A 0T6

http://www.statcan.ca

September 15, 2006

Dr. Paul Cheung
Director, Statistics Division
Department of Economic and Social Affairs
United Nations
Room DC2-1732
2 United Nations Plaza
New York, N.Y. 10017

Dear ~~Dr. Cheung~~ Paul,

Thank-you for the opportunity to comment on the SNA Update. As you know, Canada has participated in many of the working groups, EDGs as well as the AEG. We view the process to have been open, inclusive, as well as informed. We took as many opportunities as possible to inform the debate with research papers on issues like capitalization of research and development, on non-performing loans, on pension liabilities, among others. We support the list of recommendations including some options or compromises that have been made to reach consensus, which were not always in line with our original position.

We feel that this update process is very important. The SNA has become widely accepted around the world and is extensively used for monitoring economic progress for the purposes of monetary and fiscal policy stability, as well as research on macroeconomic issues. It is important the SNA remain relevant in an ever changing economic environment and that issues of measurement be addressed in a planned and managed way in the international community so that cross country comparisons are accurate. Dealing with individual issues on a one-by-one basis, as was attempted after the publication of SNA93 through the ISWGNA does not easily lead to consistent solutions across all parts of the SNA.

A major achievement of this revision process has been to coordinate consistency of treatment across international manuals and handbooks. These include the update of the Balance of Payments manual, as well as the Foreign Direct Investment Benchmark manual, the new chapter in the SNA manual to align with the Government Statistics Manual, a better discussion of treatment of Non-Profit Institutions to line up with the Handbook on Non-Profit Institutions Satellite accounts and the alignment of many cross-cutting issues with the SEEA manual on Environment Accounts. This is a very impressive amount of coordination and agreement to achieve in such a short period of time. ISWGNA and the International Agencies are to be congratulated for this effort.

The work of the Canberra II group on the measurement of capital shows the need to consider many issues concurrently to assure consistency of treatment. The previous experience of trying to handle the issue of the licensing of the spectrum for mobile phones as a one-off issue, or implementing the capitalization of software spawned many consistency issues to be considered, including leasing and licensing, valuation and sales of intangible assets, depreciation versus obsolescence, and the list goes on. The group was informed by many papers on these issues, all of which are complex and do not lend to easy decisions on how to implement. The issues on capital and intangible assets were subject to extensive debate. As difficult as many of these issues are to disentangle, they reflect today's reality of a complex economy and therefore need to be addressed to maintain relevance.

As national accounts compilers, we struggle with the balance between a core system based on data collected from business and administrative records, and concepts which require more estimation or imputation but relate to topics which are very relevant to the economic forces driving economies. Capitalization of software, included in SNA93, is a case in point. No one would argue that software, as an asset, has been unimportant in economic performance. The fact that a substantial amount is "own account" software, developed for own use, has required estimation techniques and imputations for valuation.

The capitalization of Research and development (R&D) is a case in point for this update. Again, the role that R&D plays in economic performance is undeniable. Nations often subsidize it, promote it and set policies to facilitate it, in recognition of its potential to improve the economic sustainability of an economy into the future. This particular issue has been mentioned as needing to be addressed in every version of an SNA manual, dating back to the UN papers in the 1950's. Yet, SNA93 treats R&D as an intermediate expense, similar to the purchase of paper supplies or payroll clerk services.

A body of relevant data exists for OECD countries via the Frascati manual and OECD database on GERD. The issue for moving forward is how to coordinate implementation process so that countries follow similar practices. Canada has started work on a satellite account, to be published early in 2007. It will serve as our taking off point for discussion of options for issues such as depreciation and obsolescence, international payments and receipts for R&D services and assets and inventory versus final product. We view this as a topic for implementation over a period of years in order to refine methodologies and adjust to international conventions of the difficult measurement issues. Experience has shown that NSOs can work together to tackle measurement challenges in a coordinated way.

Yet, R&D is only a start on a broader range of intangible assets that have important effects on economic performance. Goodwill and advertising assets were left unchanged in this debate and only show up as assets when the business entity has been bought or sold. This is in line with current business accounting standards which require valuation of them when an entity changes ownership. This view means that the Coca Cola or Microsoft brand names have no explicit recognition in the measures of National wealth, whereas Gillete has a large value because it was recently sold to Proctor and Gamble. The recent economic press has highlighted the importance of intangibles in the economic process and the National Accounts need to react. R&D is a good start as it is the most "measured" of the intangibles. Much can be learned on the broader issue of intangibles from the R&D implementation process.

Another issue which has been controversial throughout the update process has been the treatment of employer pension schemes and, in particular, the booking of so-called unfunded liabilities. Canada has much experience in this issue and it is a difficult one. In 2000, we changed our treatment of what SNA93 would define as unfunded government pension liabilities to include them as part of government deficit and debt and household savings and wealth. The issue for us was twofold. Many unfunded schemes in Canada have been converted to funded schemes over the years by governments simply issuing bonds to the pension fund. In the SNA, this created a one-off increase in household wealth and government debt at a given date in time, when in fact, the government promise to pay was guaranteed by law prior to the issuing of the bonds. In addition to the peculiar shifts in the National Accounts, that treatment had created a difference between the governments' own debt figures and the National Accounts ones because Canadian Governments have always booked their unfunded pension liabilities and included them in official public debt figures. The change in treatment brought the National Accounts more in line with Government accounts. This meant that no imputations were necessary on the part of National Accounts; we were simply reflecting the transactions already recorded by the government employer.

That being said, the full implementation of what is being suggested in the Update will not be straight forward, nor non-controversial. In addition to the employer unfunded schemes, a large scheme called the Canada pension plan exists where all employers and employees contribute and it provides a minimal pension in retirement years. This is a partially funded, partially pay-as-you-go scheme. Determining whether this scheme is an employer sponsored scheme or a social security scheme will require careful deliberations on measurement and international comparability. Given that there is still ongoing debate on this issue, Canada will comply with a compromise solution if one is adopted.

The final comment on the update relates to the attempt to apply the "market valuation" principle more broadly across the parts of the system. It is emphasized in the new FDI manual and the SNA for measurement of investment positions, but it has also been extended to the valuation of non-market output by recommending that a rate of return to the use of capital in the production process be added to the sum of costs approach currently used. This adds an imputation which also requires careful coordination. Canadian research has shown that private sector businesses reap a return to the use of Government infrastructure assets, which roughly equivalent to the long term government bond rate. This argues for inclusion of such a rate of return in the value of the government output.

Finally, I would like to re-iterate Canada's support for the SNA Update and we fully intend to continue to participate in the international forum of bringing this update to the implementation stage and to future deliberations on the SNA.

Yours sincerely,

Ivan P. Fellegi