Comments on *1993 SNA* Updating Issues of the Consistency
of the Full Set of Provisional Recommendations

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An Issue Concerning Holding Companies

In the full set of provisional recommendations (hereafter, provisional recommendations), holding companies are described as follows.

> Holding companies are not ancillary units; the functions they perform to control and direct subsidiary companies are not ancillary activities. The 1993 SNA classifies them as non-financial or financial corporations depending on the classification of their subsidiary companies. In future, holding companies will all be treated as "other financial intermediaries" (New term proposed, "miscellaneous financial institutions".)"

Under the description of provisional recommendations, all holding companies are classified as financial corporations, regardless of the classification of their subsidiary companies.

However, the draft of the International Standard Industrial Classification of All Economic Activities Revision 4 (hereafter, draft ISIC Rev. 4) classifies the activities of holding companies into two different groups. The draft ISIC Rev. 4 describes them as follows.

> **K   Financial and insurance activities**
> **6420 Activities of holding companies**
> This class includes the activities of holding companies, i.e. units that hold the assets (owning controlling-levels of equity) of a group of subsidiary corporations and whose principal activity is owning the group. The holding companies in this class do not provide any other service to the businesses in which the equity is held, i.e. they do not administer or manage other units.
>
> This class excludes:
> - active management of companies and enterprises, strategic planning and decision making of the company, see 7010

> **M   Professional, scientific and technical activities**
> **7010 Activities of head offices**
> This class includes the overseeing and managing of other units of the company or
> enterprise; undertaking the strategic or organizational planning and decision
> making role of the company or enterprise. Units in this class exercise
> operational control and manage the day-to-day operations of their related units.
> This class includes:
> - Head offices
> - Centralized administrative offices
> - Corporate offices
> - District and regional offices
> - Subsidiary management offices
>
> This class excludes:
> - activities of holding companies, not engaged in managing, see 6420

Under the definition of draft ISIC Rev. 4, holding companies engaged in controlling and
directing subsidiary companies are classified as *professional, scientific and technical
activities*, not as *financial and insurance activities*.

Therefore, it seems to us that the provisional recommendations are different from the draft
ISIC Rev. 4 in the classification of holding companies. This issue requires additional and
considerable clarification and examination.

Issues Concerning Financial Services

In light of the measurement of financial services, the description of provisional
recommendations seems to be mostly acceptable. But from the standpoint of consistency
among the provisional recommendations, the following issues require detailed
examination and considerable clarification.

What kinds of service are provided by financial corporations, especially to the debtor?
In the provisional recommendations, the calculation of financial services, indirectly
measured, is described as follows.

> FISIM should be calculated on loans and deposits only according to the formula
> $(r_L^t - rr^t)y_L^t + (rr^t - r_D^t)y_D^t$ which implies the use of a reference rate (rr). This
> implies a change to the 1993 SNA .

r_L^t : the loan rate of t term , r_D^t : the deposit rate of t term,

rr^t : the reference rate of interest of t term , y_L^t :the amount of the loan of t term,

y_D^t : the amount of the deposit of t term

1. Financial services are calculated on loans and deposits according to the formula
$(r_L^t - rr^t)y_L^t + (rr^t - r_D^t)y_D^t$. Does the description of provisional recommendations
intend to change the calculation method of FISIM, which is calculated according to the
formula $(r_L^t - r_D^t)$ in 1993 SNA?

2. Let us define the formula $(r_L^t - rr^t)y_L^t$ as loan-based financial services and the formula
$(rr^t - r_D^t)y_D^t$ as deposit-based financial services. We recognize that the output of
financial services indirectly measured consists of loan-based financial services and
deposit-based financial services. Is it correct? If yes, it seems that financial services in
the provisional recommendations are different from FISIM in 1993 SNA in the contents
of services.

3. What kinds of services are provided by financial corporations to the depositor and the
debtor?   Do you recognize that loan-based financial services and deposit-based financial
services are homogeneous or heterogeneous?

How should we treat the negative difference?

The provisional recommendations do not refer to the treatment of negative difference of
the formula $(r_L^t - rr^t)$ and the formula $(rr^t - r_D^t)$. The following issues, however, require
considerable examination.

1. If the formula $(r_L^t - rr^t)$ or the formula $(rr^t - r_D^t)$ is negative, how should we treat it?

2. In this case, how should we calculate and record financial services indirectly in the
central framework of SNA?

How should we treat deposit insurance?

The provisional recommendations do not refer to the treatment of deposit insurance. But in light of the calculation of financial services, indirectly measured, the following issues need considerable examination.

1. Should we treat deposit insurance as a kind of non-life insurance, or as a kind of standardized guarantee?

2. How should we measure the output of deposit insurance? Would it be similar to the measurement of output for non-life insurance?

3. Who consumes deposit insurance services? The depositor or financial corporations?

4. Let us suppose that the depositor consumes all deposit insurance services. It then seems that we have to adjust the fee of deposit insurance to the deposit rate $r_D{}^t$ to avoid affecting the savings of all the units concerned.

When we calculate loan-based financial services, are traded loans that are not reclassified as securities included or excluded?

In the provisional recommendations, the treatment of traded loans is described as follows.

It is not proposed to change the guidance on traded loans. A loan should be reclassified as a security only if there is evidence of a market for the loan and market quotations are available. A one-off sale of a loan does not make it a security. No separation of loans into traded and nontraded categories is proposed.

We think that these following issues would need considerable examination.

1. When we calculate loan-based financial services, are traded loans that are not reclassified as securities included in the amount of the loan $y_L{}^t$? If yes, who provides financial services? The loan seller or the loan purchaser? What kinds of services are provided to the debtor?

2. Let us suppose that a loan is traded. Do financial corporations still control the interest rate of the traded loan? If financial corporations do not control the interest rate of traded loans, it seems that the traded loan is excluded from the amount of the loan $y_L{}^t$, as is the case for bonds and other securities.

When we calculate loan-based financial services, how do we treat loans with concessional interest rates or loans with economically insignificant interest rates?

In the provisional recommendations, the treatment of loans with concessional interest rate is described as follows.

> The question of how to recognize the consequences of concessional debt is very important, especially for developing countries. However, the means of incorporating the impacts within the SNA are still not agreed, although several suggestions have been advanced. Most of these involve some degree of variation from the normal SNA rules. The recommendation is that this item be added to the research agenda and pending resolution the impacts of concessional loans should be shown in supplementary tables,

We understand the difficulties involved in how to recognize the consequences of concessional debt. But from the viewpoint of the calculation of financial services, indirectly measured, the following issues need considerable examination.

1. When we calculate loan-based financial services, how do we treat loans with concessional interest rates or loans with economically insignificant interest rates? Are these loans included in the amount of the loan y_L^t ?

2. If the difference between concessional or economically insignificant interest rates and the reference rate of interest rr^t is negative, how should we treat it?