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MINUTES OF THE MEETING OF THE OECD NATIONAL ACCOUNTS EXPERTS

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The chairman opened the session reminding participants that the previous meeting has recommended that the work should be organised around task forces that would report to the meeting (referred to as the NAEM in the present minutes). The NAEM should then express its (consensual or majority) view on the recommendations of the task forces. The October 2002 NAEM has been organised accordingly, with “tours de table” or even “raise of hands” during which member countries have been asked to express their views. The meeting room has been organised to facilitate these “tours de table”, while also permitting the expression of observers, whether representatives of partner non-member countries or consultants invited by the OECD.

The present minutes include the results of these informal consultations. They appear in bold character. They will be forwarded to the group of chief statisticians of the OECD (“High Level Group”). Most issues discussed have implications on the SNA 93. Changes in the SNA follow a formal procedure, of which the ISWGNA is the coordinating body. The ISWGNA was present at the meeting and is thus aware of its conclusions.

I. Alternative measures of household saving

1. The household savings rate measures the unconsumed share of household income. It is widely used in short- and long-term economic analysis. After being on a trend decline throughout the 1990s, today’s question is whether it will now increase, with unfavorable consequences on household consumption. This session of the meeting examined some of the limitations and possibilities surrounding the definition and measurement of savings, and put them in an analytical context. This session was closely linked to the session on financial accounts, in which the measurement of household wealth was discussed.
2. The main objective was to determine which new data is needed for alternative measures of savings that are useful to economists. In other words, the agenda was not to change the SNA, it was to agree on the additional data necessary to compile these alternative measures, in particular, with the objective of improving international comparability of household saving rates. Several papers showed how the core definitions of income, consumption and saving of the national accounts could be enriched by alternative measures. The paper from the OECD Economics Directorate not only showed the interest of the proposed alternative measures to explain consumption patterns, but also, the difficulty to find the data to compile these alternative measures, except for the USA.
3. The session was focused on household saving. However, Australia expressed the view that more attention should be given to the broader concept of national saving, and, in particular, to “real net national saving”. Five papers were presented and jointly discussed. This gave rise to the following observations and conclusions.

C) Inflation adjustment

7. Saving rates vary with inflation, through interest income and outlays. If the value of interest-bearing assets exceeds the value of interest-bearing liabilities in the personal sector, the increase in nominal interest rate will raise measured personal saving even though it leaves the purchasing power of household net worth unchanged. A measure of personal saving that removes the inflation premium from nominal interest shows how real saving behaviour has changed over time. Several delegates confirmed the usefulness of such an additional measure, corrected for inflation. They would be calculated by removing the inflation premium from nominal interest paid and received by households. The inflation premium is estimated by multiplying the realised inflation rate (deflator of final consumption of households) by the average holdings of interest-bearing assets less liabilities.

D) Consumer durables

8. The meeting acknowledged the importance of including non-financial assets into a consideration of changes in household wealth. Consumers perceive consumer durables as assets even though the SNA treats such acquisition as consumption. Thus, a measure of personal saving that takes into account net investment in durable goods would be an alternative to the central SNA measure. In this alternative presentation, (1) expenditure on consumer durables could be deducted from consumption, (2) capital services from consumer durables could be added to both income and consumption and (3) consumption of fixed capital on consumer durables could be added to consumption of fixed capital on other assets. It was pointed out in the meeting that while consumer durables are important, international guidelines would be needed for the compilation of data. The chair suggested that the OECD/Eurostat transmission programme should be expanded to include additional lines on capital stocks, capital services and depreciation of consumer durables.

E) International comparisons

9. The paper from France pointed to the problems of comparability of the data on saving rates published by the OECD. Here, some member countries do not transmit at all the data needed to compute comparable savings rates. The OECD has given priority to "net household saving". Some countries still do not transmit fixed capital consumption of household assets and therefore, the OECD publishes a gross figure for these countries and a net for others, which is evidently non-comparable. Other, more minor, inconsistencies of transmission are present, such as inclusion or not of Non Profit Institutions in the household sector. These reasons should however disappear progressively as the transmission to OECD improves. The meeting supported the Chair's suggestion that the OECD should at least publish two figures, one gross and one net, rather than a mix of gross and net.
10. Furthermore, institutional differences between countries affect the measure of saving rates. The most important of them are: mix of direct/indirect taxes, mix of market/non market services, mix of funded/unfunded pension funds. Eurostat also mentioned the difference in the mix of corporated/unincorporated enterprises.

F) Indirect taxes

11. Other things being equal, the measure of income is higher in countries where indirect taxes represent a large share of taxation. As income is the denominator of the saving rate, countries with large indirect taxes have lower saving ratios. The meeting agreed that it would be useful to neutralise this

institutional difference. However, this would necessitate specific series on indirect taxes paid by households, which are not standard in the SNA.

G) Market, non-market services, adjusted disposable income

12. Saving rates are compiled by the OECD (as in many member countries and other international organisations) as saving/disposable income. However, the cost of producing services of health care and education is borne by general governments in varying degrees from one country to the next. Because this cost is either included in income (when it is not borne by government) or not (when it is borne by government), the saving rate can vary accordingly. The use of SNA's "adjusted disposable income", which includes social transfers in kind (equal to individual government consumption), would be more appropriate for the compilation of internationally comparable saving rates.

H) Pension funds

13. Two issues originating from the treatment of pension plans in the SNA were presented in the meeting. The first is that the current saving rate is affected by changes in the treatment of pension schemes, whether they are considered part of the household sector or of the business sector, and whether they are considered funded or not.
14. The second is that SNA recommends treating pension funds in a dual way. Payments by households (including employers' contributions) are deducted from disposable income (B6), while pension benefits are added to disposable income. Net payments therefore impact disposable income. At the same time, net payments are recorded in the financial accounts because they are considered financial assets. This is different from the treatment of life insurance, which flows does not impact disposable income, despite the similarity of life insurance and pension schemes in some countries. As a result of this dual treatment and in order to balance the accounts, the SNA introduces an adjustment called "D8: adjustment for the change in net equity of households pension funds", which is included in saving (B8). Hence, if no correction is made, the saving ratio is obtained as $[B8 \text{ (which includes D8)}/B6 \text{ (which excludes D8)}]$. This is not consistent. A consistent ratio is $[B8 \text{ (including D8)}/(B6 + D8)]$. This adjustment, which is already implemented by the OECD, does not impact countries, such as the USA, Australia or Canada, that do not apply the SNA recommendation and treat pension funds similarly to life insurance.
15. The meeting was informed of the creation of an EDG on the treatment of pension funds in the SNA by the IMF. The OECD should continue to look into this matter and develop several adjusted measures of household savings for better comparability.

The chair concluded this session with the following practical recommendations. First the official Eurostat/OECD transmission program should include a specific table on household wealth, including real assets. Memorandum items on consumer durables (stock of, capital consumption, capital services) would be included in this table, as well as an estimate of realised capital gains/losses. This implies that member countries invest some resources on these estimations. The meeting forwards to the ISWGNA the issue of the possible reclassification of taxes on capital gains. Finally, the OECD should revise its table on saving rates, by publishing both gross and net saving rates and by compiling better internationally comparable levels, using adjustments that correct for differences in the mix of direct/indirect taxes, market/non market consumption and pension funds.

II. Final report of the task force on software measurement in the national accounts

16. The objective of this session, chaired by Carol Moylan (BEA, USA), was to adopt the recommendations of the task force, which cover conceptual issues, international trade issues, deflators, business surveys and estimation methods based on a commodity flow approach.
17. Regarding conceptual issues, the main recommendations are the following. Original and reproductions of this original are two separate entities, and should be capitalised separately. All own-account software (including originals for reproduction) is to be considered as investment, and should be valued on the basis of full costs. Licenses to use (equally called “reproductions”) should be treated as investment, except if they are intended for bundling/embedding (intermediate consumption). Rental payments for software intended for use of more than one year are treated as investment: in principle accounting rules for financial-leases should be implemented, but, in practice, it is acceptable to record investment as being equivalent to actual payments as and when they occur. A definition was given to maintenance, which is to be recorded as intermediate consumption.
18. Regarding international trade, the task force reports that it is essential to identify external trade of software services. Current national accounts seriously underestimate exports and imports of software services, and this affects the quality of the estimate of software investment. Balance of payments statistics should allow for a separate recording of software.
19. Regarding deflators, the national experts in the task force expressed unanimously their concern that a new statistical price gap should not be created between country estimates, as did happen for computers. Good quality adjusted price indices should be developed for pre-packaged software. International comparability should be an important criterion to implement, if needed, adjustments to existing deflators. If no other short-term solution exists, the US price index, adjusted by changes in exchange rates, should be used. In the short term, price indices for custom software should rely on an average of the pre-packaged deflator and an input cost index. Price indices for original software (own-account) should rely of pre-packaged software price indices for original for reproductions and input prices for other originals.
20. Regarding the method of estimation of software investment, the task force reported that it is unrealistic to base the current estimates of software investment on reports of businesses that are used for tax purposes. Indeed, current business accounting practices are not consistent with the recommendations of the SNA, in particular regarding own-account software (originals). Specific business surveys should be used as the major source of estimation. However, this needs an important adaptation that could be hampered by the hostility of respondents to increase the burden of statistics. In the medium term, and before business surveys can be adapted and lead to good results, a commodity flow approach (“supply-side” methodology) is to be used. This method includes delicate steps to avoid double-counting, based on many assumptions. In absence of other sources, the recommendation is to use the internationally comparable assumptions proposed in the report.
21. The main discussion in the meeting focused on the first recommendation of the task force, which is that originals and reproductions of originals are two separate entities, and should be capitalised separately. UK expressed its disagreement. Under its point of view, the recommendations lead to double counting of investment. Reproductions should be seen as “means of access” to the original, which is supposed to be the only asset. Norway supported also this point of view citing the fact that they did not capitalise computer hardware either. On the contrary, the US announced that they are in the process of including estimates of both the original and the reproduction in their forthcoming four-yearly revision round. Previously, the BEA did not capitalize originals, but were persuaded by

the task force to do it. The US representative supported the conclusions of the task force in this regard. Canada also approved the recommendations. Australia indicated that this should be treated in analogy with the principles of transfer of economic ownership that are discussed in the SNA for financial leases and that were brought forward in the ISWGNA memorandum on mobile phones. Regarding the double counting issue, one could consider that there is a des-investment in the original when a reproduction is capitalised. The IMF rejected this idea on the ground that the value of the original may increase when more reproductions are sold, because they gain market shares, but shared the idea that the principles laid by the ISWGNA for mobile phones should have been used by the task force. France suggested that the report should have presented the issue in a more controversial manner, because the issue is not as simple as described.

22. The chairman of the task force and the OECD, supported by Eurostat, did not consider that there was sufficient ground to change this recommendation. It has the big advantages of being consistent with SNA, practical, corresponds to the principles of business accounting and lead to better international comparability. However, the issue of double counting will be forwarded to the Canberra II group.
23. Korea was not convinced that own-account software was to be capitalised. Own account software is expensed by businesses and contains R&D which is discarded as investment in SNA 93. The OECD explained that R&D in software is not capitalised as such in the recommendations of the task force, but only through its costs.
24. A “raise of hands” on the recommendations of the task force concluded the session. Only two countries (UK, Norway) rejected the recommendations, leaving a large majority in favour of adopting them. Australia supported but would welcome a discussion on the double-counting issue in the Canberra II group. The USA supported but would prefer that the words “second best” not be used to qualify the commodity flow approach.

The chair and the OECD welcomed that a large majority of member countries accept to use the recommendations of the joint OECD/Eurostat task force on software measurement as the base to better comparable data in the near future. However, the “double counting” issue resulting from the task force recommendations on originals and reproductions of originals is not closed and is forwarded to the Canberra II group. The real success of the task force will be measured by better convergence of the ratio GFCF/Intermediate consumption. The OECD will organize a short survey in late 2003 or 2004 to check this convergence.

III. First report of the task force on insurance

25. This part of the meeting was chaired by Mr. Jacques Magniez (INSEE, France). The Secretariat presented the first report of the OECD task force on the treatment of non-life insurance in the national accounts and balance of payments. The report provides background for the work undertaken, describes the rationale and limits of the present treatment in the SNA, makes interim recommendations, and proposes a future direction and workplan to tackle the outstanding issues.
26. The 1993 SNA presents an indirect measurement of non-life insurance output as the balance of premiums plus premium supplements less claims due within the period under review. This works reasonably well for most classes of non-life insurance but breaks down in the case of a major catastrophe when the 1993 SNA treatment can lead to falling or negative output. At the heart of the

recommendations in the task force report lies therefore the suggestion to substitute 'claims due' by 'expected claims' in the calculation of output.

27. Several countries (Australia, United States) strongly supported the suggestion to substitute expected for actual claims, in particular Australia which has already implemented the use of expected claims. Other countries expressed agreement on the principle, but reserved final judgement until further work on the implications for the rest of the accounts was completed. Switzerland strongly recommended that reinsurance be treated in parallel with direct insurance, as there are likely to be issues peculiar to reinsurance.
28. The chair acknowledged this broad agreement of principle on the concept of expected claims, the agreement being conditional on the outcome of further work by the task force. In respect of reinsurance the chair suggested an international exchange of data to ensure international consistency of exports and imports when it comes to the treatment of reinsurance across national borders.
29. In respect of the possible methods for estimating expected claims, the United States expressed a preference for the simple moving average method and to a treatment that would exclude impacts of catastrophic losses on disposable income.
30. Turning to the implications of expected claims for the rest of the accounts, the first issue to be addressed is that if expected claims are the right measure for the insurance services produced, then what happens to actual claims in the national accounts? France suggested that the excess of actual over expected claims could be treated as a capital transaction, as these excess claims would not be covered by annual premiums, and should therefore not be included in the current account. Australia only records actual claims in the secondary distribution of income account, and queried the need for gross national income to be equal to disposable income. If an income adjustment is made to force equality, then the implications for the financial accounts may not be logical.

The meeting welcomed the proposal of the task force regarding the use of expected claims to measure the output of insurance. The meeting also supported the proposals for further work to (1) propose practical estimation methods of expected claims, (2) explore the corresponding treatment of reinsurance, in particular in international flows, and (3) propose a recording system to take into account the difference between expected claims and claims due in the institutional sectors accounts. One of the possible solutions would be to record this difference in the capital account, rather than in the income account. The task force meets again in February 2003 and will report its final recommendations in the NAEM of October 2003.

IV. Collection and dissemination of national accounts data

31. The transmission of national accounts data to the OECD has significantly improved this year. However, there are still many countries that are not transmitting the tables under the agreed timetable. A summary of the availability of the annual data is attached to these minutes. In principle annual data should be available for year 2001, but many sets only cover 2000 (France, Hungary, Mexico, Netherland, Poland,...). Also there remains important holes in the area of institutional

sector accounts (tables 0119 and 0800). Financial accounts (tables 0122 to 0127 and 0601 to 0702) are very poorly covered at the Statistics Directorate of the OECD (see session on financial accounts).

32. The OECD, in cooperation with Eurostat, is preparing a reform of the transmission program, which will simplify and even suppress many annual tables, while increasing some requests regarding quarterly accounts. Principles governing the exchange of data should be: (1) transmission to the OECD (and Eurostat) on the day of the publication of the data in the country, (2) for European countries, a positive interpretation of the regulation: if a table is not compulsory, but the country has the data, it should be transmitted to the international organisations on the same basis and timing as compulsory tables.
33. The priority of year 2002-2003 is on a rapid transmission of simplified institutional sector accounts (table 0119), and in particular of general government accounts (table 0200). A new table will be requested regarding household wealth. The OECD announced that the data disseminated through all its databases and publications for net lending/borrowing will be consistent with the recommendations of the ISWGNA, in particular for the mobile phone licenses receipts. Countries that do not implement the international standard are requested to send adapted tables.
34. The meeting was informed that the OECD is implementing a new definition of government expenditures and receipts, on the basis of the formula of table 0200. The OECD has also implemented new annual and quarterly data for the Eurozone that respect the "single country" approach. The main shortcoming for the Eurozone remains the absence of gross imports and exports. Member countries of the Eurozone are urged to distinguish intra and extra flows in order to reduce this major shortcoming of the data.
35. The meeting was informed of the NAWWE project of using web sites and the SNA codification system to boost the exchange of national accounts data. The three following countries volunteered to participate in a test exercise, starting in March 2003: Australia, UK, France. Norway and Canada were not completely decided but will consider participating.

Timeliness of transmission of the national accounts data remains a major concern at the OECD. The principle of transmission on the day of the release of the national data should be the target. Priority should be given this year to the transmission of simplified institutional sector accounts. Several countries accepted to participate in the NAWWE project.

V. National accounts and PPPs

36. Two papers (France, OECD) discussed the reliability of the current PPP deflated GDP time series. The reliability is based on the comparison with relative GDP volume growth. A room document from Denmark covered the same issue.
37. The French paper focused on European comparisons. The difference over 7 years (1992-1999) between volume relative GDP growth and PPP deflated GDP growth can be large (9% for Denmark, -6.0% for France). If one admits that the reliability of GDP growth is better, this questions the reliability of the PPP program. The paper concluded that the PPP program should be strongly reinforced in four directions: (1) ensure temporal consistency between PPP-based GDP and national accounts, (2) carry-out cross sectional comparisons of price levels, in particular for construction, (3) systematically revise the figures in the event of manifest errors detected belatedly, (4) increase the role of comparisons of actual final consumption rather than only GDP.

38. UK supported the French view that independent experts' estimates for construction should be better controlled, in particular regarding the time-consistency of their estimates. Also, there is an issue with second-hand goods. Russia described a consistent system for the estimate of construction for the CIS countries. Denmark requested that revisions of national accounts figures be taken into account by PPP compilers.
39. The OECD paper confirmed the differences reported by France for Europe and extended the analysis to non European OECD countries. Similar differences are also apparent (1990-1999: -4.8% for Australia, -3.2% Japan). The paper goes further than the French paper by decomposing this difference, for the first time, between factors that are known to differ between the two statistical measures, and other, unexplained, factors. Three factors are known to lead to differences: (1) change in country scope, (2) net exports, (3) domestic price structure. The first is small. The second originates from the fact that PPPs for exports and imports are based on exchanges rates while national accounts use import and export price indices. This factor has a significant impact. The third factor, also with a significant impact, is the domestic price structure (other than net exports). This factor tries to measure the "normal" drift in the PPP which is generated by the fact that some countries can get "richer" than others because they consume more goods or services which prices have gone relatively higher.
40. However, the paper shows that the remaining difference (due to other, unexplained, factors) are still nearly as significant as before the deduction of known factors. This confirms that there are problems in the comparisons in time of PPPs. A systemic difference is the fact that samples underlying PPP comparisons are chosen as to be comparable across space but not necessarily over time. A solution would be to significantly extend the number of observations in the PPP exercise, but this is limited technically and by cost. The paper then explores possible directions of improvements. The first is to make more systematic temporal data checking procedures. Other directions concern specific domains where comparability is difficult: housing services, non-market services, and machinery equipment.
41. On housing, OECD and Eurostat have started work by establishing an inventory on national accounts practices to estimate rent, with the hope that this will lead to a better estimate of PPPs. The questionnaire was presented to the meeting. On non market services, the proposed improvements would come from targeting a wider group of employees and extending the use of weights, focus on high-quality assessment for a benchmark year and use national wage indices over a longer period than two years. On machinery and equipment, the proposal is to take into account the share of imports in investment.

The meeting acknowledged that there are significant unexplained differences between national accounts and PPP-deflated time series and that these differences are most probably linked to problems in the consistency in time of the results of the PPP program. Interpretation of PPP deflated times series is questioned. The meeting agreed on the following recommendations:

- ***enhance data checks based on time series comparisons, using national deflators as a benchmark***
- ***accept the principle of revisions of past PPP data, including price data***
- ***take into account revisions of NA data in the PPP program***
- ***examine important and potentially difficult areas of the PPP program, in particular housing, non-market services, machinery and equipment, and construction.***
- ***promote the use of PPP for actual final consumption or gross domestic final expenditures; countries that do not transmit actual final consumption (USA, Canada,...) should be requested to do it.***

– *more generally, increase involvement of national accountants in PPP work*

42. Regarding the last point, the OECD informed the meeting that the PPP section of the Statistics Directorate was transferred out of the National Accounts Division but confirmed that the NAEM would continue to systematically devote a session on PPPs.

VI. Financial services

43. This part of the meeting was chaired by Ruth Meier (Federal Statistical Office of Switzerland) who is also chairperson of the task force. The task force on financial services presented its interim report. At the end of the first stage of this interim report, the meeting was asked for its views on three issues:

- 1) Should financial corporations be identified via the services that they provide?
- 2) Do the activities of risk management, liquidity transfer and auxiliary financial activities properly capture the core activities of financial corporations?
- 3) Can own funds be included as a source for the provision of financial services?

44. Australia and the USA agreed with the first two questions but had reservations concerning the third. Australia felt that the use of own funds is a form of own-account production, and since own-account production is recorded neither as output nor intermediate consumption for non-financial corporations, it might be inconsistent to record own-account production for financial corporations. But, on the other hand, perhaps the activities of financial services are so different to those of non-financial corporations that the same principles need not apply. The USA felt that it could be argued that, from the borrower's point of view, it is irrelevant whether the funds are from own funds, or from depositors. In this case, question 3 could be answered with a yes. The importance of mutual funds is growing rapidly and cause measurement problems which must be considered during discussions of financial corporations. Austria asked that before a definition of financial corporations is agreed, consideration be given to whether the units performing the activities can be classified as institutional units according to the 1993 SNA, or whether they are ancillary units. The UN pointed out that the lending of own funds is very important in developing economies and creates considerable value added.

45. The second stage of the presentation focussed on the services provided by financial corporations defined in the first stage. Again, three questions were posed:

- 1) Is the list of financial services given in the paper comprehensive?
- 2) Does the list apply beyond the deposit/loan case?
- 3) Is the task force on the right track generally?

46. Australia answered yes to the first two questions and offered to send the results of ABS work on the financial services associated with derivatives. It is important to identify the uses and the users of financial services so that counterpart transactions can be correctly recorded in the accounts. The answer to question 3 was also yes, although the task force could also specifically look at the treatment of inputs into the production of financial services, in particular the treatment of interest as an input. Australia also felt that price and volume issues should be considered, and again the ABS has done some work in this area in a CPI context. Eurostat supported the work of the task force, but found it difficult to comment on the intermediary conclusions presented in a stepwise progression of logic, where each step depends on the next. Borderline issues, such as the status of a financial subsidiary of a parent company, should be treated more clearly. Most of the services referred to in

the report are not very much more concrete than the concept of financial intermediation, and could be viewed simply as inputs to the latter. The UK praised the good conceptual work of the task force but asked that due attention be given to practical implementation issues. In fact, the task force will be asking several countries to provide case studies of how the conceptual theory fits reality. Germany suggested that it was difficult to answer question 1 since some financial services (holding companies) are carried out in order to avoid paying tax.

47. Following mention of the treatment of realised holding gains/losses, the USA sought to clarify the Moulton/Fixler position as follows. Holding gains/losses are certainly not production. However, implicit services can be paid for in various ways, such as property income (FISIM), but can also be provided with the expectation of income from holding gains (Peter Hill's 1999 paper on the treatment of holding gains in the valuation of insurance output also refers).

The meeting praised the first report of the task force on financial services. The next meeting of the task force will be in Paris, during February 4-5, 2003. The final report of the task force will be presented in the 2003 NAEM. It will try to draw the synthesis of the conceptual breakthroughs and of practical issues of implementation, based on case studies.

VII. Financial accounts (in coordination with the OECD Financial Statistics Working Party)

48. Report was made to the meeting of a joint OECD-Pioneer Investment-OEE paper that compares household financial and non financial net wealth in Europe, Japan and the US based on data extracted from the financial accounts of the national accounts. The paper offers original results. It also discusses difficulties in obtaining good and comparable data on household assets and liabilities. One of the main difficulties is to obtain data on real assets (dwellings). The current classification of financial assets should be adapted to satisfy the needs of analysis. Life-insurance should be split between unit-linked vehicles and guaranteed-rate investment instruments. Pension funds should be split between defined-benefits pension funds and defined contributions pensions funds. In the absence of these categories, the authors had to use indirect data to obtain their results. More comparable methodology is needed to achieve better data comparability, in particular regarding the treatment of sole proprietorships, in particular in the US flow of funds.
49. Commenting on the paper, Japan asked whether it is appropriate to use PPP conversions when comparing asset values, given the large discrepancies between PPP and exchange rates in the case of Japan. The authors agreed that each conversion has its own advantages and disadvantages, so that, ideally, the analyses should be done in parallel. Japan also suggested that, due to the composition of Japanese household assets, they are less vulnerable to price change than in other countries, and thus the paper's estimate of the extent to which household savings and net/lending are reduced is overstated. Similarly, it should be remembered that 2000/01 is only one phase of the business cycle and the paper's conclusions must be seen in that context.
50. The ECB stressed the importance of looking at transaction data as well as stocks data, in order to give an idea of the accumulation accounts due to transactions. Also, it can be dangerous to ascribe accuracy measures to estimates since data on non-financial assets and unlisted shares are notoriously weak. Data are good for financial corporations, because sources are financial corporations, but poor for households or non-financial corporations where estimates are sometimes derived as residuals. The ECB is launching a project to collect data on the issuance of mutual funds, although in fact the problem is a lack of data on the holders of the funds. Norway and the OECD both supported the suggestion in the paper that more effort be made in the compilation of non-financial balance sheets of households. The UK noted that the asset breakdown used in the paper included mortgage liability,

and warned that such a breakdown may not be possible in future for the UK where household bank accounts are increasingly covering all borrowing.

51. The OECD recommended that the classification of financial assets be reviewed and expanded to allow better analysis of household wealth. For example, the borderline between life insurance and pension funds is unclear and is likely to result in inconsistent recording between countries.
52. Japan presented a paper titled “Who Owns Mutual Life Insurance Companies-Mutual Life Insurance under the Flow of Funds Statistics”? This document raises in particular the issue of the treatment of insurance in the national accounts. Unfortunately, because of the timing constraint of the meeting, no discussion could be organised on this room document.

A) *The measurement of unquoted shares*

53. The OECD-Pionner-OEE paper also showed that accounting for unlisted shares and other equity appears to pose problems in many countries. The paper recommends, at the minimum, that all published financial accounts tables allow users to distinguish between listed and non-listed shares. The difficulties in estimating the latter are usually of three kinds: allocating to households the volume of the portfolio, valuation of this portfolio for a given date, and the method to revalue it from year to year. Two specific papers were presented on the issue of valuation. The first one (Eurostat) lays down a program of work to recommend comparable methodologies. The second one (France) describes an original method of estimation of unquoted shares, which results in a significantly lower estimate than the current method used in France, which apparently overstated the parallel between listed and unlisted companies.
54. Australia is conducting work on the valuation of equity in unlisted direct investment enterprises abroad. The approach of using the value of assets of enterprises abroad plus the residual value of the parent in Australia is found to give big discrepancies when compared with the listed value of the group. An alternative solution is being investigated based on ratios of output, e.g. an Australian parent with direct investment enterprises in the USA accounting for 60% of sales, would have its direct investment enterprises valued at 60% of the group’s listed value.
55. The UK suggested that there are two categories of unquoted shares, and there may be arguments for considering these separately. First, enterprises with some element of direct investment, either domestic or abroad, wholly owned by the parent company. Second, small companies. If, in the first case, the parent and the direct investment enterprise are both domestic and in the same sector, then does a problem really exist? Canada welcomed the sharing of Eurostat’s questionnaire and results and suggested that the real problem is to derive a market value for the very large number of small-incorporated units. In Canada, market values are estimated using the book value plus a mark-up (also known as the break-up value).

B) *The situation of financial accounts data in OECD databases*

56. The OECD Statistics Department database on financial accounts is very poor. It is based on the tables included in the Eurostat/OECD official national accounts transmission program. The Statistics Department does not have the network of financial accounts correspondents that is necessary to obtain a good coverage of the tables on financial accounts. The chairman of the OECD Working Party on Financial Statistics informed the meeting that, due to resource constraints within the OECD (DAFFE), and, to its regret, the working party is being forced to make a choice between continuing to publish financial statistics for OECD member countries, or other work on financial statistics. The

possibility of moving the responsibility for maintaining the database from DAFPE to STD was discussed, and it was agreed that this would best be achieved by continuing to use the network of country contacts established by DAFPE. More coordination is expected from the two OECD Directorates.

57. The meeting asked for clear and complete information on how data should be supplied to OECD. Germany suggested that OECD should obtain all data from Eurostat, whereas Italy is happy to supply to both OECD and Eurostat in parallel, but would like a full list of OECD contacts, table by table. Spain asked for clarification on the collection format, means for updating methodological notes (metadata), and the publication format. Detailed data for the USA are available on the Federal Reserve Board website.
58. Canada made the point that the level of aggregation for financial accounts and balance sheets is too high to be useful in the OECD national accounts databases.

Despite difficulties in compilation and international comparability, the balance sheets of the national accounts remains a privileged source of data for the analysis of household net wealth. However, the meeting acknowledged that only few countries had developed full-fledged stock and flow accounts for households financial and non financial assets and liabilities. Of particular concern is the poor availability of data on real assets. The meeting agreed to include a new table in the Eurostat/OECD data transmission program to cover households' other changes in assets accounts (other changes in volume, reevaluation account, neutral and real holding gains/losses accounts) and balance sheets. The meeting discussed of the possibility of using an improved classification of assets and liabilities more adapted to the analysis. In particular, unlisted shares should be clearly separated from listed shares. The meeting urged the two OECD Directorates, Statistics and DAFPE, to better coordinate their work regarding (1) the construction of a database on financial accounts, and (2) discussions related to financial accounts. Non European countries welcomed that Eurostat envisages to share its research on the valuation of non listed shares.

VIII. Non performing loans

59. The IMF presented a paper discussing the treatment of non-performing loans in the SNA. Contrary to the practice of some economic units and some other accounting standards, the SNA does not envisage that the value of a loan can be reduced, owing to its impairment. It is either unchanged or fully written-off. Also, the SNA treatment of accrued (but non-paid, or most probably non-paid) interest appears questionable. As a result, the IMF opens an EDG to start discussing possible changes in the SNA.
60. The Bank of Japan reported that their treatment is to deduct individual uncollectables from nominal loans and to treat this as an impaired value. Adjustments are made to the counterpart liabilities in the balance sheets of the borrowing financial institutions. Canada follows current accounting rules, pre-dating the 1993 SNA, so that non-performing loans are expensed as current provisions and shown in the balance sheets as a reduction in asset values. This is close to the definition of 'doubtful' given in the IMF paper. Canada argues that since impairment arises from exogeneous factors affecting the borrower, there is no problem in viewing it as a volume effect.
61. The Bank of England felt that the paper has a scope which is wider than non-performing loans, and in fact relates to the provisioning against loans more generally. It is difficult to define 'non-performing', particularly in terms of periods of non-payment since such periods may exist due to a pre-agreement between both parties. The attempt to define the boundary between traded and non-

traded for the purposes of valuation was welcomed. Provisioning is a first approximation to fair valuing.

The meeting acknowledged the issue posed by the treatment of bad loans in the SNA. It asked that all participants contribute to the IMF Electronic Discussion Group on the recording of bad loans in the SNA. This point will be re-discussed in the 2003 NAEM.

IX. Reverse transactions

62. The meeting reviewed the paper “The Statistical Treatment of Reverse Transactions”, presented by John Joice, of the Statistics Department, of the IMF. The paper addresses (i) securities repurchase agreements (repos) which involve cash payments; (ii) securities lending (securities repurchase agreements that do not involve cash); (iii) gold swaps; and (iv) gold loans. These transactions are all complex and defy simple classification and that the international statistical standards do not address them satisfactorily. The discussion covered the appropriateness of the so-called “collateralized loan” approach versus following the change of ownership principle. The IMF reported that the BoP Committee gave a large support to the collateralised loans approach. Australia does not support the approach agreed by the IMF BoP Committee. It's strong preference is for a strict change-of-ownership basis for recording. It believes that under this basis the issues of "fees" associated with securities lending and gold swaps can be adequately dealt with. As a compromise, though, Australia would have accepted the IMF's recommended position, which it notes is consistent with developments in accounting standards.

Regarding reverse transactions, few comments were made, except a strong opposition from Australia. The meeting noted that there has been an overwhelming support in the IMF Committee on Balance of Payments Statistics on the principle that the collateralized loan approach is the most appropriate, with supplementary information on security and the counterparty involved. The meeting also noted that the OECD Financial Statistics Working Party had reached, also overwhelmingly, the same conclusions. In principle, this issue has therefore reached the stage at which the ISWGNA can finalise it. However, the meeting did not discuss whether the fee associated with securities lending and gold loans should be treated as a service payment or property income. This issue remains open.

X. Stock options

63. Two reports were presented to the meeting. The first by the moderator (Australia) of the Electronic Discussion Group set up by the OECD. The second by Eurostat, following a consultation of EEA countries. On the basis of these two reports, the OECD prepared a room document presenting the following five principles:

Treatment: *The System of National Accounts recognises that employee-stock-options (ESO) are part of employee remuneration and should be included in compensation of employees. It follows that they should be treated as an expense of business in the calculation of gross operating surplus and gross mixed income. ESO are to be recorded as financial derivatives (AF.3) in the financial accounts. The source of the shares (existing or new) should have no impact on recording in the national accounts.*

Timing of valuation: *The consultation showed that a majority of country representatives support the vesting date, or when the ESO becomes tradable if before vesting. Before vesting an ESO is a contingent asset of the employee and a contingent liability of the employer, and SNA does not recognise contingent assets and liabilities.*

Period of compensation: The accrual principle of recording in the SNA would favor spreading the compensation in the period between grant and vesting date. An alternative approach, if a reliable data source does not become available, would be to record the compensation at vesting date.

Valuation: When it exists, the favored valuation is the market-price of the option. When there is no market price, an option pricing model could be used. The objective is to obtain the best approximation to market price. Any difference in value between the vesting date and the exercise date is to be considered as holding gain or loss by the employee.

Implementation: the implementation of these principles depends on what will be available in business sources. It is likely that the recommendations of the IASB (expected this autumn) will be broadly consistent with the above principles.

64. Italy expressed a reservation on the inclusion of stock options in compensation, as remuneration of directors is not always classified as compensation of employees in the Italian accounts but as payments for self-employed consultants. The IMF agreed on the above principles but questioned the classification of options as financial derivatives. The OECD Financial Statistics Working Party offered to review this issue. Finland does not classify currently stock options as compensation but did not reject the principles as long as a specific category of compensation is created in order for users to distinguish between ordinary compensation and stock options. France also supported this view. UK agreed with the principles but recommended that better explanation be made on why the decision remains the same (treat it as cost to the business) when new shares are created. Australia, Ireland and Norway approved, as long as the recommendation will be in line with the IASB recommendation. Ireland asked for clarification of the treatment when a foreign parent company is the provider of the stock option. Israel presented a room document covering this case and proposing a specific treatment. Eurostat and Australia supported this proposal. The IMF mentioned that the BoP should follow a treatment similar to the one proposed by Israel. The US expressed the view that national accountants should not conclude too quickly on the basis of the IASB decisions, but also take into account the views of important other accounting authorities, such as the FASB.

The meeting showed a consensual support for the five principles regarding the treatment of stock options presented by the OECD on the basis of the Eurostat and EDG moderator reports. In addition, it agreed that (1) a specific sub-entry of compensation could be created (2) the classification of options as financial derivatives should be reviewed, (3) a clear presentation should be made on the fact that stock options remain treated as a cost to businesses even when financed by new shares, (4) a treatment should be proposed for "cross-border stock options".

However, before finalising this issue and forward it to the ISWGNA for consideration of inclusion in the SNA, the meeting decided to wait for the details of the recommendations of the IASB, that are expected this autumn. The meeting gives mandate to the OECD and Eurostat to organise a final written consultation after publication of the IASB recommendations, and to then forward a proposal to the ISWGNA.

XI. Open session

65. The Bank of England presented its publication on international comparisons of company profitability and explained the sources of this data. Several countries intervened to express their concern on the comparability of the sources. The OECD mentioned that its own publication on company profit rates had been abandoned, for lack of comparability, and that there was no plan, for the moment, to resume this work.

XII. General government

66. The IMF announced the creation of an EDG on the treatment of unfunded employer pension schemes. There are now several countries in which the general government accounting body has recognised the implicit liabilities of unfunded general government employee pension schemes. This has led national accountants of these countries and the GFS manual to question the current SNA recommendation of not recognising fully these liabilities (only considered memorandum items). The EDG will cover more than only general government employee pension schemes. The OECD, Australia, UK, Canada welcomed this initiative, which should also cover the issues discussed in the first session (income accounts and saving).
67. Australia presented a paper on accrual accounting of general government accounts. The paper stresses the fact that the initial move to full accrual accounting came from the government accounting authorities themselves. National accountants only had to use these new data, sometimes with difficulty (consistency of time-series). The UK confirmed that the interpretation of accrual accounts made by government bodies is sometimes difficult, in particular on a quarterly basis. In its last session, the meeting agreed that this item will be fully discussed in the 2003 NAEM.

XIII. Proceedings

68. The session started by a statement of the ISWGNA. As current chair, the UN announced that the ISWGNA will present to the March 2003 UN Statistical Commission (UNSC) a proposal to improve the process of updating of the SNA 93. Also, an advisory body to the ISWGNA will be put in place in the forthcoming months, in accordance with the decision of the UNSC.
69. Addressing the ISWGNA members present at the meeting, the chair of the OECD Working Party on Financial Accounts expressed concern that a decision on the accrual of interest is being rushed¹. The working party suspects that the debtor approach could cause serious inconsistencies between national accounts and balance of payments. The ISWGNA was therefore asked to host an international workshop for serious debate on the issue. Participants should include statisticians – national accountants and financial accountants – and accounting standards experts. The ISWGNA noted this request and responded that it would discuss of this issue in its next meeting (October 14-15)².
70. Australia stressed that a comprehensive review of the SNA would lead to a large body of work, including coordination with other standards (BoP, GFS), problems of resources, choice of experts, setting up of a consultation process and of mechanisms to overcome differences. The IMF announced that the BOP Committee prepares a new BOP manual (BPM 6) for 2007. Fifty different items for discussions have been identified. The BoP Committee will discuss the draft outline of the new manual in its Canberra meeting (October 2002).

¹ This comment was made during the session on financial accounts, the previous day, but, in the present minutes, has been reported here for the sake of clarity.

² During its meeting of October 14-15, the ISWGNA discussed the report of the moderator of the IMF-based EDG on accrual accounting of interest. It decided to back the conclusions of this report, which, put in simple words, is to recognise that the so-called "debtor" approach is the relevant approach for the SNA 93. It did not feel it was useful to organise a workshop, nor to organise a formal consultation. A workshop would not bring new arguments. Also, a consultation has already been organised and has shown a large majority in support of the debtor approach. The report of the moderator and a short cover memo from the ISWGNA will be sent to the member countries of the UN Statistical Commission in January, and this issue will be included in the agenda of the UN Statistical Commission meeting of March 2003.

71. Four room documents were then presented. The first two (Australia, USA) list possible issues to be included in a comprehensive revision of the SNA 93. The third (Israel) announced the creation of an OECD task force with the objective of exploring how R&D data could be compiled in SNA 93 standard. The fourth informed the meeting on the recent publication by the UNSD, in cooperation with the John Hopkins University Center for Civil Society Studies, of a handbook on a satellite account for NPIs.
72. The last paper of the meeting was from the Secretariat. It proposed to introduce more efficiency in the research program by organising more informal consultations, including using written procedures. No country opposed this suggestion. However, Australia, UK and Switzerland expressed some concern about the quality of such consultations and their outcome. Also, the US requested that papers for consultation should be disseminated at least one month in advance. The OECD confirmed that the consultation would be limited to issues that have reached a sufficient point of maturity, and would remain informal.
73. The meeting then discussed the program of work in 2003 and items to be included in the 2003 NAEM (provisionally scheduled for October 7-10, 2003). Three task forces will be supported by the OECD and will report to the NAEM: insurance, financial services, non-financial assets (Canberra II). Many countries agreed to propose a session on general government, which would cover accrual accounting, issues regarding the borderline of government, and inevitably, on pension schemes. More coordination between the NAEM, the FSWP and also the BoP Committee was required. The treatment of stock options, non performing loans and coordination with BPM6 should be discussed at the NAEM. The UK and Norway proposed a session on the practical process of compilation of the NA.

The meeting agreed that the OECD conduct informal consultations (including written) on specific issues that have reached a reasonable maturity in the discussion. The NAEM 2003 program will include the following sessions: insurance, financial services, non-financial assets, accrual accounting and borderline of general government. A joint session of one day will be organised on issues of common interest of the national accountants, financial accountants and BoP compilers. A session will be devoted to the presentation of the different EDGs and task forces coordinated by the ISWGNA.