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OECD EDG SUMMARY: CONSOLIDATION IN SNA93

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Introduction

It was proposed in October of 2005 by the Chair of the WPFS, and accepted by the secretariat, that an OECD electronic discussion group (EDG) be set up on consolidation. One objective of this EDG was to contribute to the SNA93 revisions' process as a clarification item on consolidation. The EDG will report its findings to the WPFS to the October 2006 meeting. This note is part of that process.

The summary is organized around the proposed recommendations contained in the EDG paper *Consolidation of Financial data in SNA* by Canada.

Recommendation 1

It is proposed that the SNA93 principle that in general the accounts of the system are not consolidated stand. This underlines the primary roles of the **FA** and **BSA** in the overall core system of accounts.

The EDG generally supported this recommendation. It was recognized that financial accounts (and, more generally, national accounts) are based on user needs, and the user communities in the respective countries have not requested consolidated data are prepared from largely unconsolidated data. Some of the recent increased demands for consolidated data from international agencies seem go beyond macro-economic analysis as articulated in the SNA ... and that the SNA cannot be all things.

Recommendation 2

It is proposed to re-emphasize in a re-draft of SNA93 that for certain types of analysis (e.g., government sector deficit/debt that consolidated sector accounts may be more appropriate.

There was clear support in the EDG for this recommendation. In particular, EDG participants mostly supported the contention that there was a significant macroeconomic demand for both consolidated and unconsolidated government sector data. Articulating this would strengthen the link of the core accounts with the new SNA government-public sector chapter, and by extension with GFSM. This is interpreted to suggest that there is need, as a standard output of the national accounts, to compile consolidated non financial and financial accounts for general government.

There was also support for a degree of consolidation in the financial corporations' sector, in particular for depository corporations, where the need is also evident. Beyond this, it will be more difficult to tie into the SNA93-based MFSM, which requires consolidation to the point of having a broad consolidated financial sector; however, it can be argued (and was argued in the Canadian paper) that MFSM is an extension of SNA93 with respect to consolidation requirements. Generally-speaking, EDG members did not support the need for a consolidated overall financial sector. However, recent feedback on this paper from an ISWGNA meeting indicated that there seems to be a need for such data and that therefore the SNA should emphasize this specific need.

There was concern in the EDG that the financial accounts in SNA may be heading in a direction of trying to meet too many needs, with consolidation being a good example of this (see recommendation 1). In particular, there was concern expressed by the Bank of England regarding the consolidation demands of the IMF-FSI initiative, reinforcing the above-noted concerns about trying to go beyond macroeconomic analysis in SNA93.

Recommendation 3

It is proposed that the SNA93 general position against netting of financial instruments be retained. However, netting as an extension/approximation to consolidation could be allowed as part of specific types of analysis related to specific uses of consolidated data.

The EDG generally supported this recommendation.

Recommendation 4

With respect to the definition for institutional units, it is proposed that the current SNA93 definition be retained but clarified with respect to the treatment of complex corporations. The current interpretation of SNA93 is that the relevant institutional unit for corporations is the legal entity corporation. It is proposed that this be broadened to indicate that an institutional unit could also be represented by a consolidation of related legal entity corporations.

This recommendation generated interest and a bit of controversy. On the one hand, there was acceptance of the points made in the Canadian paper that SNA93 did not really deal with the issue of consolidation very thoroughly, given that it did not touch on the issue of complex corporations. On the other hand, there was some reluctance to extrapolate from this point to necessarily modify the definition of corporate institutional sector units to include not only legal entities but associated groups of legal entities. It was conceded that this was a difficult issue, and one that *could* be held over until the next round of SNA revisions. There was debate on whether this was a conceptual issue or a practical issue, with EDG participants roughly split on this issue.

Recent feedback on this paper was received from an ISWGNA meeting. With respect to broadening the definition of an institutional unit to include groupings of related corporate legal entities, the ISWGNA concluded that the definition of an institutional unit has been discussed in the past and decided not to change it.

Recommendation 5

Further debate on consolidated enterprises could be deferred to the next round of revisions to SNA, where aspects of income will be a major review item.

Complex corporations figure prominently in income-side issues. The list could include, among other things, surplus, dividends, re-invested earnings, asset valuation and income, etc. The sense from the EDG was that the WPFS could play a major role in articulating and discussing such issues.