

For Official Use

STD/NAES/FA/M(2004)1



Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development

English - Or. English

STATISTICS DIRECTORATE

STD/NAES/FA/M(2004)1
For Official Use

National Accounts and Economic Statistics - Financial Accounts

DRAFT MINUTES OF THE OCDE WORKING PARTY ON FINANCIAL STATISTICS

Held on 11-12 October 2004 in Paris

This document has been prepared by Michèle Chavois-Mannato, OECD

Contact: Michèle Chavoix-Mannato - E-mail: michele.chavois-mannato@oecd.org

English - Or. English

Document complet disponible sur OLIS dans son format d'origine
Complete document available on OLIS in its original format

DRAFT MINUTES OF THE OCDE WORKING PARTY ON FINANCIAL STATISTICS

HELD ON 11-12 OCTOBER 2004 IN PARIS¹

The meeting is opened by Patrick O'Hagan (Canada, Statistics Canada, vice-chair of the WPFS). He will replace the chair Chris Wright, who could not attend. He states that the Working Party increasingly meets the demand of the delegates as well on issues linked to the financial databases as on the cooperation with non financial experts of national accounts, which is particularly welcome during the period of the review of the SNA.

Item 4: The new financial accounts database (Michèle Chavoix-Mannato, OECD/STD) [STD/NAES/FA(2004)5]

This session was for information.

Presentation

The document STD/NAES/FA(2004)5 is a progress report on the new database on financial accounts. It contains a description of the database and of the new publications and gives some recommendations to improve the quantity of data stored and the quality of data and metadata. It highlights the very important work that has been carried out to build the new OECD database on financial accounts and to publish two new volumes of the series of *National Accounts of OECD Countries* publications:

- Financial Accounts – Flows
- Financial Balance Sheets - Stocks

Delegates were invited to acknowledge and to agree with the following recommendations proposed by the Secretariat:

Recommendation 1 (R1):

All OECD member countries are invited to submit all of the data they were requested to provide in connection with the 2004 joint questionnaire, focusing initially on transactions and on stocks of financial assets and liabilities.

¹ These minutes contain only a very brief abstract of the presentations because the papers and power points are available on the web site of the OECD. Also some items which did not lead to any discussions are not mentioned.

Nevertheless, countries that have yet to supply the OECD with any or part of their financial accounts and/or balance sheets are especially requested to make an effort. For these countries, this effort would consist of:

- Systematic submission of non-consolidated and consolidated accounts;
- Simultaneous submission of financial accounts (transactions) and balance sheets (stocks).

Recommendation 2 (R2):

The OECD member countries are invited to make their views known on the following suggestion:

- Countries would post standardised methodological information about the financial accounts on their Internet sites and update it regularly.
- The OECD would use an automated procedure to compile this information and publish it.

Recommendation 3 (R3):

Given the usefulness of ascertaining the value of financial assets, for the household sector in particular, the OECD Secretariat recommends that financial balance sheet tables are not overloaded, but that a request for this information is added to the special table to be discussed under Item 5 of the agenda.

Discussion

Australia:

Australia congratulates the OECD Secretariat for the production of the Financial Accounts publications.

(R1) The consolidation will be an issue for them. They can't provide non-consolidated data and historical series for revaluation accounts and other changes in volume.

(R2) Australia supports it. They are interested in accessing the methodological notes of other countries.

(R3) They can provide annual data on non-financial assets of households. Australia proposes to extend the provision of non-financial assets data to all sectors, if not sub-sectors.

Unites States:

(R1) They can only submit consolidated data on flows and stocks. Regarding the revaluation accounts and other changes in volume, the United States have made an attempt to integrate it but data are not standardised.

(R2) They support it and find it very useful. They want to see the survey to know how the OECD Secretariat would like to present the methodological information on the Internet site.

(R3) The United States can provide non-financial assets of households and of business sectors.

Netherlands:

They congratulate the OECD for the work done on the database; it is very useful to have international comparable information on financial accounts.

(R2) The Netherlands are in favour of putting methodological documents on Internet. They suggest that the OECD prepares a precise questionnaire in which the information will be delivered.

(R3) They support this recommendation and they can provide data on non-financial assets of households and other sectors.

Canada:

(R1) In Canada, sub-sectors data are fully consolidated but sectors are an aggregation of the sub-sectors data. It may be useful to have a clear understanding of what is meant by consolidation. So, Canada can adjust their accounts to meet the demand for the OECD database.

Some items in the SNA93 require clarifications and the consolidation is one of them. It would be nice to see some further notes or guides with respect to consolidation.

Another point is the split short-term/long-term of assets and liabilities. Canada does not supply much in term of a short-term/long-term breakdown. Nowadays, it seems to be less relevant given that many types of assets and liabilities can be renegotiated quite easily. Delegates should consider different types of information such as debt securities by type of debt securities for example.

(R2) Canada is in favour of putting methodological information on an Internet site. It would be nice to better understand the practices and the approaches in different countries. Canada approves the proposal of harmonizing the notes as much as possible and likes the idea of a link into national web sites.

(R3) Canada supports the inclusion of non-financial assets in the balance sheet accounts even if not all countries have the information.

Austria:

(R1) Austria reminds that there is an agreement between Eurostat and European countries on consolidation. One of the items of the manual on financial accounts sources and methods is how to treat the consolidation. Austria follows these rules and thinks that these rules should not be changed for at least European countries.

Regarding the revaluation, it seems more and more important to have this information not only for stocks and flows but also for revaluation effect especially for securities and shares.

(R3) Austria has tried to elaborate a first time series of non-financial assets for all sectors. It would be necessary to know the contents of these assets (flats, lands...). The second point extremely important is the information on the valuation of both non-financial assets and financial assets to understand their outcome.

United Kingdom:

(R2) The United Kingdom agrees with the publication of the methodological notes on Internet. There is an increasing demand from the users for that.

United States:

The United States supports Canada comments about showing the loans and securities in more detail and that the long-term/short-term split is not all that useful for the United States either. They would support the type of loans or the type of securities because that's what the policy makers look at in the US in the financial accounts.

Eurostat (P. de Rougemont):

(R1) Consolidation could be usefully clarified in the process of the SNA review. Eurostat suggests that the position F5 which is split between F52 mutual funds and F51 other equity in the ESA95 could be split similarly in the SNA93.

(R2) Eurostat is running a survey on financial accounts practices which is summarised in a document entitled "Sources and methods for the compilation of ESA95 financial accounts". Eurostat would welcome the OECD to do something similar at the world level. The process should be harmonised quite tightly so that users would have a similar environment and providers of this information wouldn't have double work.

Eurostat welcomes any comment on the Eurostat survey to improve it further.

(R3) The Eurostat ESA95 Transmission Program has been reviewed and there will be a new table showing non-financial assets for all sectors only on a voluntary basis except for households. This new transmission program not yet finalised will be discussed at the national accounts working party and at the financial accounts working group in November 2004. Before its finalisation, the principle of the voluntary basis for the table of non-financial assets can be raised at these two working groups.

Eurostat thinks that having the net worth of general government is an important point and proposes to make an effort to have non-financial assets for general government too.

Germany:

Germany congratulates the OECD staff for the development of the financial accounts database.

(R2) Germany supports the publication of the methodology on Internet and indicates his contribution to this exercise. A technical good idea might be to inter-link the national web sites to know the methodological practises of other countries.

(R3) Germany thinks that for the time being, the availability of non-financial assets across the countries is unequal. So, Germany prefers to follow a similar approach as Eurostat which is providing these data on a voluntary basis, as a memorandum item.

France:

France congratulates the OECD for the initiative of re-launching the financial accounts database. It gives to a larger number of countries a benefit in term of harmonisation.

(R1) The Banque de France will make an effort to complete the different OECD demands, especially regarding the consolidated accounts for provisional data. But it will be done within the pace of Eurostat demand which is 2006.

(R2) France supports this recommendation and waits for a standardised template to provide the information.

(R3) As non-financial data are produced by the INSEE, the Banque de France can't commit itself on this recommendation.

Belgium:

(R1) Belgium will make an effort to solve the problem of classification. They have difficulties with the sector financial auxiliaries; by the end of 2004, they will intend to improve their records of transactions and stocks for this sector.

They will also make efforts on the consolidation. They have recently integrated the intra-sectoral claims in the non-financial corporations sector which were not included in the data. So, they had a distortion in the non-consolidated data.

Regarding the issue of the other changes in volume and the revaluation effect, Belgium considers that it is not important. As other changes in volume are rather exceptional, the revaluation effect can be deducted by comparing the variation in the stocks data and in the transactions.

(R2) Belgium agrees with the publication of methodological information on Internet site. They find the structure of the Eurostat manual on sources and methods for the compilation of financial accounts very good, especially the part 2 of the manual. It would be interesting to use it for this recommendation.

(R3) Belgium can't give any opinion on this recommendation as the work on non-financial assets is done by National accounts colleagues.

Spain:

(R1) Regarding the consolidation methods, there has been an agreement at the Eurostat level with the European countries and this should be taken into account if the OECD wants to improve the consolidation aspect of non-European countries. Spain updates and sends the consolidated and non-consolidated accounts to Eurostat without any delay.

(R2) Methodological notes are necessary to understand the practises of the other countries. Spain proposes to follow the two approaches raised by two delegates.

- The Eurostat approach which consists in a common pattern on methodological information. This unique pattern has already been agreed at the Eurostat level.
- The link to national web sites is also useful in term of methodological information. The method used to elaborate the accounts in some countries could be more detailed on their national web sites than what is reported in the Eurostat manual.

(R3) Non-financial assets are very important but the Central bank doesn't have this information at the moment. This is the area of the national institute of statistics (INE). Once it is available the Central bank can incorporate this information into the tables that measure the financial and non-financial wealth of the different sectors.

Conclusions of the president:

(R1) Most countries support this recommendation. They will submit as much details as possible under the new format. There were no objections regarding the new tables.

(R2) There is a very broad and substantial support for methodological notes. There is a need to better understand the data that will be presented in the releases.

(R3) There seems to be various experiences across the member countries with respect to the compilation of non-financial assets. If the financial accounts are constructed in a statistical agency, financial and non-financial assets are available and included in the balance sheets. If they are built in a Central bank, there are sometimes difficulties to supply information on non-financial assets.

There was a general support among the delegates that such information could be provided on a voluntary basis.

F. Lequiller, OECD Secretariat:

F. Lequiller just mentions the proposals made by Eurostat (P. de Rougemont) which consists in bringing in the SNA93 some clarification on consolidation and on the split between F52 and F51.

In the SNA, the term “Mutual funds” does not exist; there should be some definition and perhaps the ESA95 could be a good inspiration for the next SNA.

F. Lequiller has noted that types of bonds are more useful for users than the split long-term/short-term. This is something that the OECD Secretariat could look into.

The president:

With respect to the consolidation issue, the European countries have guidelines and non-European countries should follow them in the OECD financial accounts tables. It might be useful that non-European countries refer to these rules for consolidation and try to implement them as far as possible in their accounts.

The president asks the delegates to send written comments on the three recommendations to the OECD Secretariat by the end of October 2004.

M. Chavoix-Mannato, OECD Secretariat:

(R1) With respect to the consolidation issue, a paper has been presented last year at the WPFS. One of the recommendations in this paper was the acceptance of the rules of Eurostat for the consolidation and the extension of these rules to all OECD member countries. This issue should be clarified and detailed in the course of the year.

(R2) In term of methodological information, delegates have suggested a standard methodological questionnaire based on the one done by Eurostat. The OECD Secretariat will build it according to Eurostat model with some national references that are in general more detailed.

(R3) The Secretariat notes the general interest regarding a new table on non-financial assets. This issue could be discussed via a written procedure in order to elaborate some definitions on that subject in the course of the year.

M. Chavoix-Mannato adds a comment on the SNA review. In the framework of the SNA review, two issues should be improved:

- The consolidation which is not clearly explained in the SNA93.
- The position F5 which is not split between F52 and F51 in the SNA93 but in the ESA95.

Item 5: Elaboration of a more precise nomenclature of households' financial assets: conclusions of the pilot-project meeting of 5 July 2004 (Michèle Chavoix-Mannato, OECD/STD) [STD/NAES/FA(2004)4]

This session was for decision.

Presentation

The document STD/NAES/FA(2004)4 presents the conclusions of the ad hoc meeting held in July and contains the list of new financial assets to be requested from OECD countries for the households sector. This project constitutes a first attempt to better identify and analyze households' wealth in OECD countries.

A number of questions are put in the document.

Question 1:

Is the proposed definition and renaming for 'Investment funds shares' convenient?

Could the proposed classification of investment funds be used to distinguish between the different types of investment funds held by households in your country?

As there is no universal threshold retained to define bond funds and equity funds, it is proposed, at least at a first stage, not to impose any threshold to define bond funds and equity funds. National central banks/statistical offices would (i) use their national classification scheme to collect fund data and (ii) inform the OECD about the definitions used. Then, at a later stage, the differences between the definitions used at national level could be discussed. **Is this proposal acceptable or should thresholds be specified? If so what are your suggestions?**

Question 2:

Do you agree that it is preferable to maintain 'contracts of retirement managed by an insurance corporation' in F.611 to better correspond to SNA or do you prefer to include them in 'Net equity of households in pension funds reserves' (F.612)?

It is proposed to split multi-vehicle life insurance contracts (i.e. contracts in which one can find unit-linked and non unit-linked vehicles) between F.61111 and F.61112 according to the contents: does the WPFS agree?

Do you accept the new classification according to the risk? If so, which alternative do you prefer?

Question 3:

Could the proposed breakdown of each type of pension schemes into three categories, traditional defined benefit funds, hybrid defined benefit funds, and defined contribution funds be used in your country?

Is the introduction of a memo item F.6123, including unfunded pension schemes, useful?

Is the proposed new classification acceptable?

All delegates were invited to reply to these questions and to express their view on the proposals for a more precise nomenclature on households' financial assets. They were requested to take decisions on the principle of an additional yearly table proposed by the Secretariat and on the various additional instruments to be included in this new annual table.

Discussion

United States

Details on the households sector are very important. United States support a yearly satellite account table and they would be able to give data by the end of 2005. The idea of having an expert group on the definitions is very important.

Denmark:

The decomposition of financial assets (and also liabilities) of households is a good start to analyze households' risks.

Denmark supports a yearly satellite account table. They will be able to provide data from 1999 onwards at the end of 2005; data from 1995 to 1998 will be estimated.

F52: Denmark supports the idea of having a broader definition of mutual funds.

They are not sure whether they will manage to distinguish between closed end funds and shares and other equity. But, they will be able to make a detailed compilation as the one suggested by the OECD.

Denmark doesn't think that a threshold should be specified yet.

F611: Denmark agrees with the proposed classification. However, in Denmark, contracts of retirement managed by an insurance corporation are included in "Net equity of households in pension funds reserves" (F612).

F612: The breakdown of F612 can be used in Denmark but there is no pension schemes managed by a non-autonomous pension funds.

Regarding the unfunded pension schemes, they can't include them in "Other" (F6123) in the coming years. But, they will do it in the next couple of years if this issue is agreed in the framework of the SNA review.

Austria:

Two general comments:

- Austria doubts that having yearly detailed supplementary information on three assets held by households will enable a real measurement of risk. The opposite solution currently used in Austria is a collect of securities on securities by securities basis for all investment sectors. This solution offers a better understanding of the real risk.
- More and more countries are developing a security by security database using information from the market or from national numbering agencies. These agencies classify on a various types of securities even for mutual funds and therefore there is no choice in the distinction of equity and bond funds.

F52: Concerning the name of “Investment funds shares” for the financial instrument F52, Austria has no objection but the ESA95 clearly classifies, defines and names this instrument and it can’t be changed for other purposes. The OECD proposal should be compared with the ECB Central Security database.

Austria can follow the classification of investment funds shares (F52).

F611: For the classification of “Net equity of households in life insurance reserves” (F611), Austria has difficulties to distinguish between life insurance contracts and contracts of retirement. But they are in favour of leaving the contracts of retirement in the F611 under “Defined benefit schemes” or “Defined contribution schemes”. As for life insurance contracts, Austria can distinguish between unit-linked and non-unit linked.

F612: Regarding the classification of “Net equity of households in pension funds” (F612), Austria proposes to restrict non-autonomous pension funds only to pension funds operated by companies and not by the state.

United States:

Definitions are an important issue.

F52: The United States have no objection changing the name of the F52. However, the definition is not very clear.

Regarding the classification of the F52, the United States do not do it by funds in the accounts but by the assets so there is no hybrid account.

F611: Like in Denmark, contracts of retirement managed by an insurance corporation are included in “Net equity of households in pension funds reserves” (F612).

F612: The United States show in the accounts defined benefit schemes and defined contribution schemes, but they don’t have any hybrid defined benefit schemes. They have individual retirement funds that they propose to put in the category “Other” (F6123).

In general, the United States will support the proposal to have an annual table but some work has to be done on definitions.

Eurostat (P. de Rougemont):

Developing in details the information on the households sector is a very good idea.

F52: There is already a definition of the instrument F52 in the ESA95. The term “Investment funds” is too large and F52 should be restricted to things very specified.

Eurostat thinks that the two views of classifying the F52 either by types of funds or according to the assets of the funds (suggested by some delegates) are not contradictory. And the reporting suggested in the document could support both types of approach. This question should be deepening.

F611: Contracts of retirement that are delivered in a context of social insurance should be reported in the financial instrument F612 because under F612, there are all instruments which cover social insurance, while in F611, there are individual instruments.

F612: Eurostat has in their database (not linked with the SNA database) hybrid categories. But this is not what is in the SNA. Eurostat proposes to discuss this subject with the EDG on pension so that SNA also mentions these hybrid categories.

Eurostat doesn't find the instrument "Other" (F6123) necessary in the context of the ESA95 or SNA currently. If the SNA is changed to incorporate unfunded obligations as liabilities in the system then of course the position F6123 has a meaning.

Australia:

To measure risk, Australia would prefer a security by security database. The proposal here is based on getting some influence about risk rather than measuring it.

Some risk measurement practices are coming out of the Bâle arrangements for financial institutions supervisors. There may be some fruitful explorations on that area.

F52: In Australian financial accounts, households' holdings of mutual funds or unit trust are calculated in the form of security residually. They don't ask to data sources separate questions about whether institutional holders hold unit trust or mutual fund shares.

So, Australia won't be able to provide detailed data for that particular position F52. They wait for the revision of the SNA before considering changing their questionnaires.

Regarding the classification of mutual funds by type of funds, they don't see any objection.

Australia looks for predominance to classify mutual fund shares in bond or in equity funds and they don't have any hybrid or balance/fixed funds.

F611: Australia is in favour of the first proposal but they won't be able to provide data at level 3 in the coming years.

F612: Australia has no problem to provide data according to this classification even at level 3.

They will report under the position F6123 unfunded public sector employee superannuation schemes. In Australian accounts, they are recorded as a subset of defined benefit schemes.

Finland:

Finland is in favour of having a supplementary questionnaire on a yearly basis on households' assets only on the stock side.

F52: Finland can report data according to the proposed classification except for closed-end funds. Finland suggests distinguishing open-end and closed-end funds.

F611: Before taking any decision on that classification, Finland proposes to have some meetings with Regulatory Authorities to examine if the requested data are available in the countries.

Sweden:

F52: Sweden wants a description of what should be included in the category "Other funds" (F526). They have problems to define where to record funds of funds.

F611: Sweden prefers to include the contracts of retirement managed by an insurance corporation in the F612. In Sweden, there are no multi-vehicle life insurance contracts.

They can provide data up to level 3.

F612: The breakdown into three categories, traditional defined benefit funds, hybrid defined benefit funds and defined contribution funds is not possible for the moment in Sweden.

The memo item F6123 is useful, but Sweden can't provide any information under this item.

Spain:

F52: European countries have two definitions of mutual funds shares in the ESA95. There are investment funds for the classification of the institutions and mutual fund shares for the instruments. A clarification on this issue is necessary. In the Institutional investors' publication, a definition of investment companies is also given. All these definitions should be harmonized.

Spain agrees with the classification of investment funds by types of funds.

F611: Contracts of retirement should be maintained in the instrument F611. Spain is in favour of the first proposal but they need to contact the Regulatory Authority to collect the information.

F612: Spain accepts and has information on the proposed breakdown of each type of pension schemes into three categories.

Spain supports a yearly questionnaire but requires more clarifications on conceptual definitions of the various items proposed. They also support a session with Regulatory Authorities to define data availability.

Spain will be able to provide information on pension funds and mutual fund shares in spring 2005, and data will start in 1995.

Switzerland:

F611: Contracts of retirement managed by an insurance corporation should be reported in F612.

F612: In Switzerland, almost all pension schemes would be classified in the hybrid defined benefit funds category because the risk is shared between the manager and the policy holder. This hybrid category is very relevant according to Switzerland.

Germany:

F52: Germany supports the classification of the financial instrument F52 although the risk is not completely captured with it. The information following this classification is not yet available at the Bundesbank but they are going to implement the statistics on households' assets on security by security basis. They might be able to provide data for the proposed classification in the course of 2006.

On the criteria for the classification of the different types of funds, new national rules that apply for each fund are currently being developed in Germany, so Germany will refer to these national rules in term of classification.

Furthermore, ECB is about to develop harmonized statistics on investment funds with a breakdown by types of funds. It will be interesting to follow the discussions on that point.

F611: Germany supports both proposals but there might be a data availability constraint as defined contribution schemes are just emerging.

F612: Germany can provide data for the proposed breakdown up to level 2. Regarding the memo item F6123, there are no schemes that would fit into this category.

Netherlands:

F52: The Netherlands support the initiative of renaming mutual fund shares by Investment fund shares. They agree with the classification by types of funds but they would like a clear definition concerning the real estate funds.

F611: Contracts of retirement managed by an insurance corporation should be reported under the instrument F611.

In the Netherlands, they don't distinguish unit-linked or index-linked vehicles.

F612: The proposed breakdown is not relevant in the Netherlands. Regarding the memo item F6123, there are no schemes that would fit into this category.

France:

France supports the initiative of the OECD regarding the proposed satellite account with a classification of households' assets more detailed. In term of risk analysis, France has not a security by security database; therefore the assessment of risk won't be very good because based on estimates.

France suggests that a meeting with Regulatory Authorities and with people involved in the ECB Central Securities database will be useful in order to be sure that the proposed classifications are relevant for every countries.

F52: France agrees with the new name of the instrument F52. Regarding the threshold, it is difficult to define it (legal or effective threshold or return on each type of mutual funds). Regulatory Authorities should discuss this issue before any decision.

F611: A clarification of the SNA and of ESA95 is necessary in term of recording the contracts of retirement managed by an insurance corporation either in F611 or in F612.

F612: France agrees with the breakdown between defined benefit and defined contribution schemes. But in the hybrid category, it will be difficult to know what has to be classified as risky or as non risky.

Italy:

Italy supports the inclusion of a satellite account on households' assets in the questionnaire. But more precise definitions are necessary on contracts of retirement managed by an insurance corporation and on hybrid defined benefit schemes. A session with Supervisory Authorities would be welcome.

Italy will be able to provide data at the end of 2005 but they have a problem to send data starting from 1995.

Regarding the memo item F6123, Italy finds it useful to classify residual categories on pension schemes.

Norway:

F52: Norway accepts the proposed classification for F52 which is already in use in Norway.

F611: Contracts of retirement managed by an insurance corporation should be reported under the instrument F611.

F612: In Norway, there is a relative new regulation which makes difficult to get information but at the moment they can provide requested data only starting from 1999.

Belgium:

Belgium supports the idea of having a supplementary table on households' assets.

F52: The mutual fund shares are clearly defined in the ESA95 and this definition should be adopted.

Belgium agrees with the proposed classification but proposes to classify funds of funds in "Other" and to identify separately the capital protected funds as they represent 25% of the Belgium market.

F611: Belgium is in favour of the first proposal. Contracts of retirement managed by an insurance corporation should be maintained under the instrument F611.

F612: Belgium finds very interesting conceptually the proposed breakdown but for the time being, this information is not available in Belgium. It has to be discussed with Regulatory Authorities.

Greece:

F52: Greece follows the classification of investment funds.

F611: Contracts of retirement managed by an insurance corporation should be reported under the instrument F612.

Portugal:

F52: Portugal can provide data according to the proposed classification.

F611 and F612: Portugal will have difficulties to provide data at the level 3 of the classifications.

Portugal agrees with the supplementary table on households' assets but they can provide only data starting from 2000 for the time being.

Czech Republic:

F52: Czech Republic supports the classification of investment funds by types of funds and agrees with the new name of F52.

F611: Czech Republic agrees with the proposed breakdown only until level 2.

F612: They have two types of pension funds:

- Special funds classified in the central government sector as defined benefit schemes.
- Autonomous pension funds classified in financial corporations as defined contribution funds.

Canada:

F612: As Canada has a very substantial amount of households 'assets in unfunded pension plans of governments, they would therefore support the introduction of a category F6123 including unfunded pension schemes.

The president:

There seem to be a lot of support in principle for additional breakdowns of households' assets.

The president suggests putting these proposals to a vote and that vote is whether countries would be prepared to include more detailed breakdowns of households' financial assets in their work plan for the next year.

This should be subject to a certain degree of flexibility with respect to the detail that can be provided because there are a number of issues like definitions, data constraints in the member countries, different institutional structures in various countries.

Concerning the definitions, the OECD Secretariat has agreed to provide more precise definitions within the next month.

Results of the vote: a reasonable amount of countries have indicated that they would like to make these proposals part of their work program. The OECD will pursue.

Item 6: Draft SNA-USA

The US delegate (Susan Hume McIntosh, US FED) presents a paper which describes a pilot exercise of presentation of the US national accounts in the format of presentation of the SNA. The paper covers both non financial accounts and financial accounts.

Canada found particular interest in this presentation because there are two items that are treated as in the Canadian accounts: (1) consumer durables enter as assets in the balance sheet with a reconciliation in the other change in volume account, (2) a statistical discrepancy appears in the other changes in volume accounts; unfortunately, the SNA does not allow for the accountability of statistical errors, this should be changed.

The US delegate explains that the FED is committed with BEA to analyse the statistical discrepancy but is unable to commit about the future of this pilot project.

Item 7: Integration of institutional investors database in the financial accounts database

Michèle Chavoix-Mannato (OECD Secretariat) presents a paper which proposes to integrate the data on institutional investors in the framework of the financial accounts. An additional table would be included to the standard financial accounts table, with minimal loss of information. The paper proposes three recommendations:

Recommendation 1:

The WPFS agrees on the principle of the integration of the institutional investors database in the financial accounts.

Recommendation 2:

The WPFS accepts a simplified classification of assets

Recommendation 3:

The WPFS accepts the proposed classification of institutional investors

Canada agrees with recommendation 1. However, the proposed classification of assets is not sufficiently detailed. In addition, in Canada, banks have changed considerably their portfolio and could be considered as institutional investors.

Greece questions the category S123B. Should closed end funds be included in this category?

Italy supports the integration of the institutional investors in the financial accounts and a simplification of the classification of assets. However, Italy has remarks on the classification of investors. There may be loss of information in the proposal concerning closed-end funds which were included in II database and are not included any more in the new proposal. They are important in the UK and becoming in Italy. It would be important to maintain this information. He proposes a split between open-end and closed-end and inside open-end between monetary and non monetary. Individual portfolio management services were recorded in other form of savings and cannot be classified in the new tables, while they are part of the industry. The definition in the new table for monetary funds may be inconsistent with the one proposed for households.

Ireland questions the composition of S123B which seem to include units that are not institutional investors.

Austria questions the possibility to have the five split of sector S125 which is proposed. Also, residency for Euro area countries should take into account the difference between the Eurozone and the rest of the world.

Eurostat supports the differentiation between open and close end categories.

Australia supports the integration proposed in recommendation 1. Regarding assets, the split between short and long term for loans seems irrelevant. He has however problems with sector S123B as presented in the proposal which include units that are not investment corporations (securitization trusts, financial auxiliaries). Australia disagrees with real estate funds being classified in S122. Australia does not have data for reinsurers. On the question on open and closed, this information is interesting even if this split does not exist on the Australian market, but ABS can proxy it using quoted or unquoted funds.

Denmark accepts in general the recommendation but will not be able to transmit all information. She is confused with S123B.

Finland has a problem with the category "Other" S125D, which should not exist.

Eurostat reminds the audience that under the definition discussed by the task force on financial services real estate funds may be classified as financial intermediaries. Australia replies that no conclusion was reached in the task force.

Korea agrees with the first two recommendations. It is difficult to separate the data for reinsurers. Korea can submit only the total of investment companies.

Spain consistency should be sought between the definition of monetary funds in the households table and in this table. In S125, the basic difference is between insurance and pension funds.

USA agrees with the first recommendation. The confusion is in the sectoral definition. The US has no information on the split between resident/non resident nor on short-term/long-term, nor information on reinsurers.

France cannot submit data on reinsurers.

OECD (François Lequiller) responds that S123B was seen as “what countries classify as investment companies in II but which are not mutual funds”. The presentation of the table was probably misleading, and we should find a more flexible presentation. He proposes to suppress S12D and the category of pure insurers. He will have bilateral discussions with countries which have commented the classification, with however the constraint to remain in the framework of financial accounts.

Italy agrees that closed/open is not described in financial accounts, but still it would be useful to have this data, especially for closed funds for the UK.

President

The chair concludes that there is a general agreement for the integration but there are comments on sectoral classification which should be resolved by bilateral contacts.

Item 8: Progress report on Central Government Debt database and proposal for extension of information on debt.

OECD Secretariat (Isabelle Ynesta) presented the progress report and a proposal to implement a new collection of data on debt, in nominal terms, in terms of maturity, and extended to guarantees.

explains that the “Central Government Debt” collected through the debt agencies will not cover the debt of the central government in the national accounts definition of this term. There is a terminology issue.

Switzerland remarks that the split between short-term and long-term securities has no meaning when it is also asked to split the categories in terms of maturities. The breakdown should be limited to residual maturity.

France contests the use of the same coding for initial and residual maturity. The split of maturity could be included for index-linked bonds and variable rate bonds. France will have difficulty in reporting guaranteed debt.

Australia questions the fact that the nominal value is requested while the financial accounts are in market value. Australia is not sure to be able to cover guarantees. F5 should not be in central government debt.

Eurostat supports the remarks made by others on the confusion introduced by the cross referencing of short-term/long-term with residual maturity. The use of the term “central government” should be cautious as it does not correspond to the national accounts definition. The term “nominal” value should be defined, in particular whether it includes interest. In the Maastricht debt, the nominal value is the face value. Eurostat does not rule out a liability in F5 for government but recognises that this liability should not be included in debt.

The Netherlands is concerned by the existence of several definitions of central government and of debt. Links with the Maastricht debt should be clearly established. The inclusion including guarantees would not be acceptable.

Spain is concerned by guarantees. Countries have some knowledge of “explicit guarantees”. But there are many cases when the guarantee is very general, in particular for public companies. It happens that in countries having small explicit guarantees, suddenly large assumptions have to take place because of “general guarantees”. All data on debt are extremely sensitive (Maastricht debt), so the status of this data should be really considered. In particular it should be clarified that the debt is gross.

The Czech Republic requests clarification on financial derivative, nominal value and guarantees. In particular only guarantees that obviously will be called should be included.

Ireland requests clarification about derivatives as the concept of nominal value of derivatives seems not adapted.

Italy is concerned by the status of this table, and asks clarification on the concept of derivatives at nominal value, and guarantees.

The OECD Secretariat (François Lequiller) insists that this presentation is a first first one, which contains approximations. There will be large consultations before going forward. He explains that international organizations and users request more information on debt. Any further step of this initiative will be made in complete coordination with other international organizations (IMF, Eurostat, ECB). The table should be seen as a memo table to the financial accounts. But it would be implemented only after consultation of financial accountants, including a consultation on the principle of going through this network to obtain this data. If financial accountants think this it is not up to them to transmit this information which is not in the definition of the financial accounts, this will not go through them.

President

The chair concludes that the OECD should clarify the status and differences of all the data that exists on public debt so that more data does not mean more confusion.

Item 9: Bank profitability

The OECD Secretariat (Esther Bolton) presents the progress report on the Bank Profitability database. She announces that the publication of the database will take place in the coming months and that the OECD secretariat is open to introduce new indicators that would facilitate the construction of the financial stability indicators discussed in the IMF task force.

Germany supports the harmonization of the OECD database and the IMF initiative.

Item 10: Repurchase agreements (SNA review)

The IMF (John Joisce) presents the state of the discussion on the treatment of repurchase agreements. Several issues have not been yet clarified and this item is therefore presented for information and not for decision in the forthcoming AEG.

Australia mentions that, irrespective of the choice made, the amount of information needed to treat these transactions is quite significant and complex. Banking prudential regulations have to be changed quite significantly. This has been started in Australia.

Eurostat informs the group that the best solution is to treat the transaction as a collateralised loans because the cash taker remains at risk. He thinks that the SNA should outline the fact that negative asset can be recorded. If we want to avoid having a negative asset, we would have to create a new instrument in the sequence of accounts that should not be classified neither in F3 nor F4, but such as “lending of something which is not be cash”, F8? or F9?. Only this could bring support to the four entry solution that is suggested.

Eurostat informs the group that this issue is part of the two new task forces that Eurostat has started and proposes that the IMF opens a central web site on this issue.

The moderator concludes that the issue is still open. It is complex and at the end it will probably be that we cannot capture what we want but only what we can. He points to the Balance of Payment committee’s web site to participate in the debate.

Item 11: Establishment of the Working Party on National Accounts (WPNA)

The chair (F. Lequiller, OECD Secretariat) presents document STD/NAES(2004)8 which explains the proceedings for the creation of the WPNA, which has a formal status as a subsidiary committee of the OECD Committee on Statistics. In particular, the meetings will be chaired by a country delegate elected by the participants.

UN-ECE expresses concern that the new status would result, for this working party, in a less open format for non OECD member countries than previously, a fact which would be regrettable. Non OECD member countries appreciate the participation in this annual meeting.

UK queries about the list of domains that was included in the draft mandate: are they supposed to be limitative?

Australia proposes that the mandate cover the exchange of “best practices”.

Eurostat queries about the involvement of the WPNA in government finance issues.

President

The Chair responds that (1) he will seek the easiest possible way to allow non OECD member countries to register as observers, (2) the list of domains of national accounts was not limitative, (3) the WPNA would have a specific interest in general government accounts, and (4) the exchange of best practice was welcome. He will propose changes in the draft mandate to accommodate for these clarifications. He announces that the mandate will be adopted by written consultation, together with the election of the Bureau, during this winter.

Item 12: Minutes of 2003 meeting of the WPNA

Eurostat reacts to the sentence in the minutes of the 2003 meeting which says that “there had been hardly any support for the dual recording” (i.e. of contributions and benefits, in the case of funded pension schemes). In the view of Eurostat, most European countries are in favour of such a dual recording.

Item 13: Progress report of SNA review by ISWGNA Chairman

C. Aspden (OECD, Secretariat) presents the history, management, and progress of the SNA review.

The Netherlands observes that the review seemed to become more and more ambitious – maybe too ambitious – and that there is only one year ahead. Considering the complicated issues that are reviewed (pension funds, life insurance), there is a risk not to achieve in 2005.

The UK supports NL and asked for the time table to be more realistic.

Representatives of IMF, ECB, as well as the moderator, insisted not to change the time table.

Eurostat recalled that it created 2 task forces to improve its involvement in the process. The objective is that the updated ESA text is ready at the same time as the SNA. But, as it will become a European regulation (Council and Parliament), it might not be available before 2010 and implemented in 2012.

C. Aspden concluded that all task forces should be close to achieving discussions for end April 2005. A supplementary AEG could be held in July 2005.

Item 14: Pension schemes (SNA review, not for decision in December)

There is no paper. A. Bloem (IMF) presents a power point presentation summarizing the proposals of the EDG.

The OECD reports on the lessons from the OECD workshop (June 2004). The OECD workshop showed two groups of countries: one in favor of the change (in line with reforms and calculations already made in these countries), one strongly opposed. Two important questions remain open: (1) is it possible to separate cases of employers’ schemes and social security schemes? (2) is it possible to introduce in the statistics doubtful estimates (arbitrary choice of discount rate)?

Canada confirms that Canada already applies most of the EDG recommendations. The government unfunded scheme (for its employees), is already recorded with a liability (increasing Canadian debt) and it is reliable data. Canada does not recognize liabilities for social security. Canada would go for a compromise: for countries for which there is a real difference between employer schemes and social security, the SNA would recognize liabilities, for the others it would not, despite international non comparability.

Regarding the allocation of net assets, based on legal terms, the surplus of the scheme is often allocated, in Canada, half to employer, half to employees.

The Netherlands expresses that his interpretation of the AEG opinion on the EDG recommendation is much less positive than the one presented here. However, he has much sympathy for the recognition of liabilities of unfunded schemes and supports the case to differentiate social security schemes and employers’ scheme. Regarding the allocation of the net assets to sponsors, he would be prudent. All the implications of the proposal should be covered as a broad package. These problems are yet not solved.

Australia supports Canada (recognition of liabilities for government unfunded pension scheme). He reports on the Australian experience on both actuarial estimates (made yearly by government, reliable and verified by the ABS). He has not seen any problem with the differentiation between employer schemes and social security. Regarding allocation of net assets he thinks the issue is more complex than the simple solution recommended by the EDG (including the case of negative assets). This year, the Australian government paid off 7 billion dollars to decrease their unfunded pension debt. This was entirely recorded as financial transactions.

New Zealand is in the camp of countries where employer schemes and social assistance schemes are clearly distinguished. He opposes the extension of the recognition of liabilities to social assistance schemes.

Japan cites the case of a transfer between a funded scheme and an unfunded government scheme and explains that it introduced a major flaw in the accounts, with the disappearance of the corresponding households' assets. She therefore supports the recognition of liabilities for unfunded schemes.

Eurostat insists that this issue is the most important of the review process and asks for more discussions and delay. The presentation by the moderator of the AEG discussions is too "positive".

The ECB reports that it is not in favor of recording liabilities for unfunded pension schemes. The reason is that it is very difficult to distinguish between social security schemes and employers' schemes. Moreover, this would result in a lot of imputations in the system, and would not reflect the economic reality.

The OECD Secretariat insists that the recording of pension rights should not depend of different institutional arrangements. Social security has not the same meaning in different countries. Therefore he proposes to record liabilities for all retirement schemes without exception, at least for all pension systems that are based on contributions based on compensation.

Australia recognises that international comparability is difficult. The issue is not on the borderline between social security and employer scheme but on the nature of the obligation. Why not base the recognition on the notion of constructive obligation?

Denmark replies that the distinction is very clear in Denmark between social security and social assistance on one hand and government employees' scheme on the other hand. Civil servants have clear claims that they could defend in a court of justice. Therefore he supports the proposals of the EDG but would not support to extend liabilities a step further.

Eurostat recognises that business standards do not systematically allocate net assets to employers. Regarding the quality of data, the source data will be progressively available, and he does not think that it is a real issue. On the contrary, there is a true issue on the borderline between social security and employer scheme: what happens if an employer public scheme is changed in social security is an essential issue and should be clarified by the EDG. The IFAC PSC seems to go for not recognizing social security obligations.

Anne Harrison reminds that the issue of under-funded and over-funded private schemes should be dealt with and suggests that one can see social security (the pension part) as a multi-employer scheme organized by government.

USA reminds the audience that information about pensions was seen as the major issue by users in the review made by the BEA.

The IMF argues that the distinction between employers' scheme and social security should be maintained, and that an extension is not in the scope of the present SNA update. Different calculations could be made in a satellite account.

President

The chair concludes that the minutes will be sent to the EDG. The moderator appreciates the remarks made and agrees, among them, that the issue of the borderline between social security and employer scheme is an important one and will be conveyed to the (new) moderators of the EDG.

Item 15: Non-performing loans

The paper for decision to the ISWGNA/AEG was presented by A. Bloem (IMF). A questionnaire was sent in July 2004 by the moderator of the EDG (Russell Freeman, IMF) and obtained 37 answers. Four options were offered:

1. Leave SNA as it is
2. Keep nominal value, but with mandatory memorandum items on market value
3. Market value in creditor accounts, nominal value in debtor accounts
4. Market value for both creditor and debtor, but with mandatory memorandum items on nominal value and interest arrears.

Options 1 received very little support, showing that a change of the SNA seems necessary to nearly all.

Option 3 received very little support because it did not respect the principle of symmetry. Option 2 and 4 received significant support, with a small preference for Option 2. The paper implicitly proposes the AEG to choose option 2.

Austria underlined the necessity to contact ECB and BIS, as well as the banking community, on such an issue. Their opinion should be taken on board.

The Netherlands mentioned that it had voted for option 1. The delegate raised two questions: 1/ should we also record receivable / payable as what is proposed for loans? 2/ how do we collect information, banks being not very keen to disclose it?

Australia supported option 4, stating that they have enough information to estimate the fair value of loans, and accept applying this estimate to the debtors. He noted that there is no difference between option 2 and option 4 regarding the collection of data: both need to collect the value of loan impairments.

Canada did not select any of the options but would favour option 4. He expressed the need to define the term market value: if it is understood as nominal less accumulated provisions, then he would agree with this definition. Otherwise, asking to record loans at full market value would be difficult. He noted that all participants in the EDG accept to move from a legal basis of recording to an economical basis. The problems are with the symmetry (this is applying this impaired value to the debtor) especially for international loans. However, there can be simple presentational ways to resolve the problem while maintaining symmetry (adding a column in the financial accounts). In Canada, they have good information on loans and provisions from the lender side; they apply the net value for the lender and the debtor, in order to have a better value of net worth for both; however, the tables for international loans do not apply this rule for the debtors; so there is a "dual" approach of Option 4 in Canada. He finally expressed the

view that the recognition of provisions for bad debt should be seen as the “accrual accounting of write-offs”.

Eurostat strongly supported Canada’s intervention on the definition of the “market equivalent value” included in Option 4 of the EDG Questionnaire. He expressed the view that the questionnaire’s presentation of Option 4 may have been misinterpreted and biased in the context of the “emotional debate” in the accounting world especially in Europe about the market valuation of loans. Eurostat recalled the July 2004 CMFB comment to an earlier IASB proposal of full fair market valuation of (some) loans. The CMFB, and Eurostat in present circumstances, does not support the full market valuation. However Eurostat could perhaps envisage recording the loan net of provisions. In this respect he noted that ESA95 recommends that write-downs are an other changes of volume—a point made in an ECB paper—and noted that there could be an interpretation of this sentence opening the way to the immediate recognition of net values for loans, as well as for accounts of receivable / payable. He reminded the audience that the Eurostat Task Force on SNA Review (financial accounts and government finance statistics) had requested on September 21, 2004 from the EDG a delay in order to clarify several items of the discussion, particularly relevant for government finance, including the timing of the write-off, and the situation of restructuring agencies dealing with impaired loans. He also noted that the TFHPSA recommended that the SNA records taxes expected to be collected (as ESA 1995 already does), thus implying that the amount of taxes receivable would not be on a gross nominal basis, but net of the provisions for unpaid taxes. This issue is linked with the one on non performing loans, a point also made by BEA when discussing taxes.

Spain stated that they had both measures of loans, and has chosen option 2 rather than option 4 because they want to respect symmetry and also do not want to apply the impaired value to debtors. She stressed the fact that the measure of bad loans differ from country to country, depending on the degree of presence of bad payers. This will make the data difficult to compare.

ECB: has sent a paper to the EDG and supports option 2: there is no way not to respect the terms of the contract (nominal value) as long as there is no change by mutual agreement. Option 4 requires the recording of provisions, and has a risk of asymmetry.

France favored option 2, refusing dissymmetry in the financial accounts. Moreover, there is no room in France for full fair value (taking into account interest rate risks), loans having little tradability.

Japan explained that their financial accounts was built using option 4, with market value defined as nominal less provisions. Regarding cross border loans, option 2 might be seen as realistic.

USA has chosen option 2 in the name of symmetry, and because policy makers look more at the debtors position in the financial accounts, which would be unduly improved if we applied to them the impaired value. Users wishing to have the creditors’ image can turn to supervisory data.

Denmark found at first option 4 attractive, but did not give sufficient importance to the debtor’s viewpoint. Debtors can go bankrupt for not paying these loans and showing them as terminated in their accounts would bias their balance sheet. He supports those who say that the terms “market value” should not be used. His interpretation of the ESA, contrary to Eurostat’s intervention, is that the write-off is the final one, not the provision.

OECD secretariat supported option 3, considering that option 2 would not bring any real change in SNA. Two issues illustrate this. The moderator proposes “compulsory memorandum items”, but the status of this is not known. The moderator has not proposed any change to sentences like “loans can only have one single value (the nominal value)” in the SNA.

The representative of the moderator (IMF) closed the discussion with these three points: (1) he has noted that a general concern was to better define the notion of fair value or market value for loans, so he will ask clarification on this point to the moderator, (2) in his view the definition of bad loan could be loans that are unpaid after 90 days, (3) the introduction of compulsory memorandum items is new, so this will be a change in the SNA, but it surely needs to be better defined.

Item 16: The treatment of provisions in the SNA

Presentation by F. Lequiller (OECD Secretariat) of a paper proposing to include in the SNA review an item on the recording of provisions in the SNA. The paper proposes to create a special account, affecting only balance sheets. The paper will be presented as an information point during the December AEG.

Austria expressed serious reservations on the proposal, emphasizing first that national accounts cannot deal with everything. The paper is not correct on the impact of provisions on the accounts. Provisions “do not fall from the tree”, the paragraph of aggregation is wrong: provisions affect the asset side automatically. Also, the difference between national accounts and business accounts on the valuation of assets historic/market is closely linked to the absence of provisions in the national accounts. Recording assets at market value takes into account provisions. Finally, he does not think it is possible to include provisions in the systems.

Canada expressed some sympathy for some parts of the proposal, but does not agree that there is convergence between business accounting and national accounting: these systems have different objectives. He gave an example of recording provisions for loans of government enterprise in Canada. A good case is made in the paper on non performing loans. He thinks that it is possible to handle the provisions in the other change in volume accounts. He does not agree to include these items in the flows (savings).

The UK has sympathy with the proposal; users in UK are expecting this. However, the paper is not sufficient and should cover all the implications.

The Netherlands has some sympathy, but still prefers to record memorandum items. First any proposal should clearly discuss the borderline of the provisions to be included: not all the many provisions recognised by businesses should be included (example: provision for new management).

The ECB recognizes that something should be done regarding contingent liabilities and provisions but these should be left to memorandum items, after balance sheet. Something should be added on the public sector chapter in the new SNA.

Australia emphasizes that quadruple entry and symmetry are fundamental principles for macro-economic accounts (aggregation etc.). The introduction of provisions would not respect these principles. Some provisions can come in the scope of the accounts (non performing loans, for example) but they should respect the symmetry of the accounts.

France appreciates the proposal to put flows related to uncertain assets in a specific table. However, she underlines that the national accounts viewpoint (sources and uses of funds) is different from business one (asymmetric, emphasis on risk and prudential recording).

The USA also supports the idea that national accounts cannot be perfectly harmonized with business accounts: the purposes are different. He would be reluctant to expand the scope of SNA review to systematically include provisions, but yes on a case by case basis. To introduce a ‘disconnect’ between the flow accounts and the stock accounts would not be useful.

The presentator concludes that there is not much support for the proposal.

Item 18: Conclusions of the WPFS meeting and 2004-2005 WPFS Program of Work

The Chair summarises the conclusions of the WPFS meeting and presents the 2004-2005 Program of Work. In addition he wants to make a small proposal at the end and invites for comments

As a general remark, he stresses the interest of focused discussions on both financial and 'cross-counting' issues during the two-day meeting, which is very encouraging.

Items linked to the future program of work of the OECD financial statistics section

Financial Accounts database:

1. The database will be updated with 2003 data and annual publications will be issued at the end of 2005. The Secretariat will focus on flows and stocks, both consolidated and non consolidated (tables 610, 620 and 710,720).
2. As for some countries, the *breakdown of securities and loans* between short-term and long-term is irrelevant and other breakdown is used, there could be an initiative on a possible additional breakdown, on a voluntary basis, according to other criteria: countries such as Canada or USA could be the leaders for this initiative;
3. An additional request in the Financial Balance Sheets on *non-financial assets* for all institutional sectors might be envisaged: the way to implement this request has to be further investigated.
4. Concerning the *methodological survey* proposed by the Secretariat, a double action should be envisaged.
 - The framework of the OECD survey should follow the Eurostat's Sources and Methods survey. *A narrow co-operation is envisaged with Eurostat*, so that possible additional questions that seem useful to the OECD are included in that common framework.
 - Then a *template should be proposed to countries* so that they can include *on their Web Site* methodological information regarding the compilation of their financial accounts following a *standard structure*, which will help users as well as other OECD countries to easily find what they are looking for. Further national information and reference to national practices would be usefully added on the Web, including a table of correspondence between data established according to the national system and data elaborated for international comparisons.
5. As *for the issue of consolidation methods*, proposals for a precise definition, following the recommendation Eurostat published as Issue n°4 in its Manual on Sources and Methods for the compilation of ESA95 Financial Accounts, will be given to non-European countries. Discrepancies will be requested from all OECD countries so that users are aware of the differences of methods applied in countries.
6. A clarification of instrument F5 and its components F51 and F52 as well as on the exact definition of consolidation should be requested in the *framework of the SNA review*. The ECB (Reimund Mink) accepts to be the leader and to propose a text.

7. As there has been general support for the inclusion of a **new yearly table on households' financial assets** (i.e. additional detail on households' assets), the OECD will pursue this activity: countries will be requested to comment on definitions proposed by the Secretariat; a satellite yearly table will then be sent to countries in the course of 2005.
8. Again there has been general support for the **integration of the Institutional Investors database into the Financial Accounts database**. However, further clarification is needed, especially on investment funds: there will be bilateral discussions between OECD and countries' experts on a number of issues which were raised during the discussions so that a final table is proposed. Then collection of data according to this additional Financial Accounts/Institutional Investors table will be launched.

Other financial databases:

9. A request on **Central Government debt data in nominal value**, which might be useful for policymakers and analysts, is envisaged in an international context (i.e. with other international organizations such as Eurostat, the BCE and IMF). A survey on the availability of such data, including more precise definition, in particular on the sector covered and on the valuation, will be sent to countries. However, no development will follow if countries are not in favour of such a table. The new table on Central Government debt data in nominal value would be a supplement to the Financial Accounts questionnaire and given the differences between the data which would be collected in the framework of these two requests (in terms of coverage of assets and liabilities, valuation of assets and liabilities, and definition of the sector), there will have to be a clear understanding of the differences between the two requests.
10. Concerning the **Bank Profitability database**, two orientations are proposed:
 - a questionnaire asking for the availability of statistical information discussed in 2002 and included in the IMF Compilation Guide will be sent to countries;
 - furthermore, due to the implementation of the new IAS which might have consequences on the data requested in this database, at least for European countries, further investigation might be useful.

Items linked to the SNA review

11. Concerning the follow-up of the IMF presentation on '*Repurchase agreements, securities lending, gold swaps and gold loans*', WPFS members are encouraged to communicate directly with John Joisce of the IMF on any issues that he raised and perhaps were not clear or that create a problem for national compilers.

Proposals from the Chair

Many of the SNA review items affect the Financial Accounts and the Balance Sheet Accounts. Therefore, WPFS delegates are strongly encouraged to participate in the various EDGs that are looking at these issues.

In particular, a key area of interest to WPFS members should be the clarification of the valuation of assets and liabilities; there was a general agreement that there is a shortcoming in international standards of national accounts. The issue of the valuation of equities and the issue of symmetry between assets and liabilities are crucial for financial accounts compilers. There is some work ongoing in this area by the OECD Workshop on Unquoted Shares, and by the OECD-IMF DITEG.

The Chairman makes two proposals in this regard and invites for comments on the second proposal:

- a. The minutes of the Workshop on Unquoted Shares of 12 October 2004 are included in the minutes of the WPFS meeting (see appendix 1 of the present minutes).
- b. Serious consideration has been given to equity valuation as an SNA review item: it could be considered to set up an EDG on this particular topic on the auspices of the OECD. This would allow bringing work being done under DITEG and under WGUS together and of course broaden the discussions.

Reactions

The **Australian delegate** supports these two proposals and agrees to participate in the EDG on the valuation of assets and liabilities.

The **Dutch delegate** is confused about the second proposal of the Chairman regarding the inclusion of a new item on the list for the update of the SNA review and the creation of an electronic discussion group on equity. He wonders where it comes from and thinks the WPFS should follow the normal procedures for including new items for the update of the SNA.

The **Chairman** repeats that there will not be any new substantive changes to the SNA93 at this point, but the proposed EDG will seek a clarification of the valuation of equity as it exists in international standards. In his view as well as in the view of certain other delegates, a clarification is certainly useful and an EDG might be a good idea to ensure a harmonized solution. There would not be any introduction of something brand-new but rather it would push forward a clarification and this is still allowed under the procedures.

François Lequiller confirms that the OECD will follow the procedure and ask the ISWGNA whether it is an issue to be taken up by the ISWGNA. The OECD will try to do the best starting from the meeting of the Workshop on Unquoted Shares to see if an EDG can be opened. The mandate of this EDG might also be discussed on the following day.

In response to a question regarding the conclusions drawn on item 5 (*households' assets*), the **Chair** bears out the final agreement on the households' financial assets item which consists on voluntary submissions from countries: a satellite account will be created and countries will be asked to contribute to the extent they can. In spite of differences across countries and a number of issues raised with respect to the detail which could be provided, a large majority of countries agreed to add this work to the work plan over the coming year.

Finally the Chairman thanks all delegates for their patience for the long days.

DRAFT MINUTES OF THE OECD WORKSHOP ON UNQUOTED SHARES

PARIS, 13 OCTOBER 2004

1. Introduction and introductory remarks by the chairman

The Chairperson, Anders Nordin (OECD) welcomed the participants and stressed the importance of the issue of the valuation of unquoted shares in the context of financial accounts. He emphasised the conceptual and practical problems related to valuing unquoted shares and the importance of the work carried out by the Eurostat Working Group on Unquoted Shares (WGUS).

In the SNA there are no breakdowns of the category Shares and other equity (F.5) into quoted and unquoted shares. These subcategories exist in the ESA 95 that also recommends using a method where values of unquoted shares are estimated with reference to the values of quoted shares. These estimates should take into account differences between the two types of shares, notably their liquidity, and they should consider the reserves accumulated over the life of the corporation and its branch of business. Furthermore, ESA 95 suggests that the current price of unquoted shares be estimated by using the ratio of market capitalisation to own funds of quoted companies, and then applying it to own funds of unquoted companies. These principles were used as a point of departure for the Eurostat test exercise on the valuation of stocks of unquoted shares.

The issues raised in the workshop will be discussed by an OECD Task Force on the Valuation of Equity.

2. The method proposed by Eurostat

Anders Nordin (OECD) introduced the method proposed by Eurostat by presenting the results of the test exercise. For the test exercise a pan-European database of capitalisation ratios was constructed with the participation of eight countries (Belgium, Denmark, Estonia, France, Netherlands, Portugal, Spain and Sweden)². The calculation of pan-European capitalisation ratios for a wide range of quoted companies was proposed to overcome some problems due to the size of national stock exchanges.

Six countries contributed to the test exercise (Belgium, Denmark, Finland, France, Portugal and Sweden). The test exercise assessed the impact of different ways of calculating the capitalisation ratio of quoted companies when applied to non-quoted companies. The capitalisation ratio was defined as the ratio of total capitalisation to own funds at book value. The data were segmented by size or by branch (two branches classifications, one with 10 NACE branches and the other one with 11 branches, isolating ICT and holdings).

The market value of unquoted shares was calculated, for each year, by multiplying the own funds of unquoted companies by the median ratio for similar quoted companies (similar size or similar branch) and adding the results for all the categories.

² Currently another three countries: Italy, Greece and Finland contribute to the pan-European database.

The following conclusions were derived from the test exercise:

- Small quoted companies and those included in top stock market indices have especially high capitalisation ratios and are not similar to unquoted companies. They should therefore be excluded from the calculation of capitalisation ratios.
- Ratios may differ greatly from one sector to another. They should therefore be calculated by sector. However, due to the small number of quoted companies, the number of sectors should be limited in order to keep sufficiently large samples.
- Ratios calculated using the Pan-European database on quoted shares are more stable than national ratios.

The test exercise resulted in 14 recommendations to be used when implementing the method proposed by Eurostat.

Dominique Durant (France) drew attention to three issues of the Eurostat method:

- In the valuation of unquoted shares we are faced with valuing a financial instrument for which no direct market exists. Therefore a method based on conventions has to be used. The Eurostat method is not perfect but it is an attempt to bring comparability to data between countries.
- The importance of pan-European database that is based on capitalisation ratios by branches. The capitalisation ratios in the branches represented on the stock market may be different from branches where unquoted companies are active. That is why it is necessary to have different ratios for different branches.
- A study made by INSEE that permits to go beyond the convention of the method by establishing a data base on the financial links between mother companies and subsidiaries. This brought about conclusions on the use of liquidity premiums and capitalisation ratios by branches.

3. Presentations by Non-European delegates

Susan Hume McIntosh (United States) presented the methods used in the US financial accounts:

- Unquoted shares are not a major issue where a majority of corporations have publicly traded shares. Unquoted shares are estimated at only 12% of the total market value of equity of domestic corporations.
- The current valuation method is based on data from annual estate tax returns. These give a split between unquoted shares and publicly traded shares (including mutual funds).
- The disadvantages are that there may be an incentive to have low value on unquoted shares to hold down estate taxes, only estates over \$1.5 million must file (and the threshold is rising) and therefore a new method will have to be implemented. Furthermore, it assumes aggregate household sector holds same proportion as wealthy decedents.

United States finds the Eurostat method interesting and would be ready to test it.

Patrick O'Hagan (Canada) presented a note on Unquoted Shares in Portfolio and Inter-Company Investment:

Canada recently moved from book values in the quarterly estimates in the National Balance Sheet Accounts (NBSA) and the International Investment Position (IIP) to incorporate current market value estimates. The quoted (listed) and unquoted (unlisted) shares are divided by equity type and type of investment in the following way:

- Listed corporate equity, included in portfolio investment
- Listed Inter-company (direct) equity investment
- Unlisted corporate equity (largely included in household assets)
- Unlisted Inter-company (direct) equity investment

He argued that it may be reasonable to consider all types of corporate equity (liabilities) and equity investments (assets) simultaneously in order to attempt to ensure consistency and make a distinction by type of investment. These include: portfolio shares; equity in unincorporated business (quasi-corporations); incorporated entities owned privately (largely by households, and including family businesses); domestic inter-company investment; and, international inter-company (direct) investment.

The following principles should be applied to the different types of investment:

- For portfolio investment market values are relevant, as they react to market-driven changes in the value of their investments.
- In inter-company investment where short-term capital gains are not the objective of the investment, a current cost approach is one alternative.
- Regarding unlisted inter-company equity three ways of valuation can be used: book value, current cost, and market valuation.
- Regarding unlisted corporate equity the WGUS recommends an approximation to market values following the recommendations of the SNA 93 and ESA95. This seems reasonable for large unlisted corporations. However, market valuation through an approach with reference to quoted shares is questionable for small companies

Furthermore, he referred to the work of DITEG that favours market valuation for the measurement of direct investment equity (both for quoted and unquoted enterprises), but outlines a number of methods.

He concluded by saying that:

- A current cost method may be an alternative to valuation for certain types of unlisted equity where market prices may not be deemed relevant.
- It might be useful to work toward the harmonization of the treatment of unlisted shares in the balance sheet account (WGUS efforts) with that of the international investment position (DITEG efforts), given the integrated nature of the system of national accounts.

Canada would be ready to test the Eurostat method within the next 3-4 months.

Derrick Cullen (Australia) mentioned that:

- Australia already made an attempt some years ago to use a market capitalisation method. But the attempt failed probably because of a too thin stock market in the branches represented on the stock market in comparison with those undertaken by unquoted companies.
- The method currently used in Australia is largely a current cost method together with implied foreign direct investment and regulatory data.

- Australia has very large inwards foreign direct investment mainly in unlisted corporations. This is why the work on unquoted shares has taken incorporate the BoP data work undertaken by DITEG.
- A project is currently being undertaken to measure the effects that goodwill and intangibles have on carrying values in the balance sheets of corporations.

Australia would be ready to test the Eurostat method both with national capitalisation ratios and (if possible) capitalisation ratios contained in the pan-European database to overcome the problem of a too thin stock market.

Toshio Okamoto (Japan) explained that:

- The current method used in Japan is similar to the Eurostat method. Financial statements of companies are used to compare market capitalisation, dividends etc between quoted and unquoted companies but without making a distinction by branches. In the Japanese Flow of Funds, the item "shares", which is the breakdown of the item of "Shares and other equities" only contains data on quoted shares. On the other hand, in the Japanese Financial Accounts the item "shares" contains both data on quoted and unquoted shares.
- Because of the current lack of basic data Japan would need time to implement the Eurostat method.

Juerg Bärlocher (Switzerland) said that:

- Switzerland is supposed to follow the Eurostat method but has currently only data at book value for financial corporations.
- The Canadian approach with a distinction between portfolio and inter-company investment is very interesting and should be considered in future work.

In the following presentations on the progress made among the EU Member States in implementing the Eurostat method the following comments were made:

- There is a strong support for the Eurostat method and the construction of the pan-European database. But most EU Member States are still in the stages of implementing the Eurostat method. The problems of too thin stock markets were raised.
- Currently there is no connection between the work on unquoted shares and the Balance of Payments methodology.
- The derivation of transactions from the stock data. The test exercise did not deal specifically with transactions but it was still discussed by the WGUS.
- The quality of data on own funds from registers, and the inter-company and intrasectoral links included in the registers.
- The treatment of inter-company and intrasectoral links of unquoted shares, and how to treat the issue of consolidation in the accounts data available.

4. Conclusions and future work

As a result of the presentations and discussions, the following conclusions and suggestions were made:

- There is a general and strong interest in the Eurostat method on the 'Valuation of Unquoted Shares' but some issues still need to be resolved to further improve the method.

- There is a need to align the work of the ‘OECD Task Force on the Valuation of Equity’ with the work carried out on the valuation of direct investment equity for the revision of the Balance of Payments Manual. In this context, there are several issues involved in the valuation of equity such as the treatment of unquoted shares, the consistent valuation of assets and liabilities, the breakdown and valuation of portfolio and inter-company (direct) investment equity; and, the consideration of various methods of current valuation for equity types.
- OECD will collect of methodological information. A questionnaire will be submitted asking countries for methodological notes on the valuation of equity.
- OECD will look for volunteers to test the Eurostat method. The tests would ideally be carried out in the next 3-5 months.
- At the request of some participants OECD will inquire if the capitalisation ratios contained in the in the pan-European database could be made available also to non-European Union OECD countries.
- The issue of consolidation in connection with treatment of inter-company and intra-sectoral of unquoted shares will be taken up for discussion by the Task Force.
- OECD will set up a web-page clarification EDG on the valuation of corporate equity, where financial statisticians and BOP statisticians can exchange information.
- The first meeting of the ‘Task Force on the Valuation of Equity’ will take place in April or May 2005.