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STATISTICS DIRECTORATE
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Working Party on National Accounts

PRIORITISING THE 2008 SNA RESEARCH AGENDA

To be held on 4-6 November 2009
OECD Conference Centre, Paris
Beginning at 9:30 a.m. on the first day

This item will be part of a round-table discussion to establish priorities for the SNA research agenda over the next two years and delegates are strongly encouraged to consider the priorities in their own national context (resources, and user needs) in advance of the meeting.

The complete document is only available in PDF format.

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PRIORITISING THE 2008 SNA RESEARCH AGENDA

1. Annex 4 of the 2008 SNA, reproduced in its entirety below, provides a detailed description of subjects where further research is desirable.

2. In some of these areas, such as the treatment of tradable emissions permits (see STD/CSTAT/WPNA(2009)8, research is already being pursued; in this case by a formal OECD-Eurostat Task Force reporting to the ISWGNA. And in others such as 'clarifying the income concept', 'defining FISIM' or 'measuring the output of government services' research and debate continues with varying degrees of formality.

3. However, although the approach to dealing with each of the issues on the research agenda as they appear on the radar screen has worked well thus far, it is also instructive, given the number of topics and their varying levels of importance, that a more anticipatory approach is considered; particularly bearing in mind the limited capacity vis-à-vis resources of NSOs and international organisations to deal with issues as they arise.

4. That is not to say that a prioritisation of issues now need necessarily be set in stone. Any prioritisation has to retain some degree of flexibility, as issues considered low priority today may not be so tomorrow. However, that being said, having a better understanding of the importance of research issues and their timing, at least in terms of those where some movement will be needed in the next two years, would clearly be advantageous sooner rather than later.

5. Delegates are therefore asked to consider the following:

- Which of the issues within the research agenda will need to be resolved within the next two years?
- For those issues identified as needing resolution within the next two years - what timetable is practical to resolve them (numbers of months) and with what type of research mechanism - Task Force, Discussion Groups etc.

6. In assessing the priority to be given to an item, and the following is a direct extract from Annex 4, three questions need to be addressed.

- a. How urgent and important is the topic to ensure that the SNA continues to be relevant to the users?
- b. How widespread are the consequences of change and how complicated will implementation be?
- c. Is the topic completely new or has much of the preparation for considering the item been completed?

Annex 4: Research Agenda

A. Introduction

- A4.1 The SNA is designed to give a realistic and compact view of the economy that is suitable for policy and analytical use. As the economy changes and policy and analytical needs evolve, the SNA must be reviewed to see if it is still relevant for these purposes. The most obvious example of a change in economic conditions that provokes a re-assessment of the adequacy of the national accounting framework is the financial crisis that evolved from late 2008 onwards. Luckily, it was possible to make this assessment before this publication was finished and only minor changes were found necessary in addition to those already proposed for the update, in particular the treatment of standardized guarantees. It had originally been proposed that these should apply only to loans; the events of the crisis suggested this should be applied to a wider range of financial instruments.
- A4.2 It is unusual for economic perspectives to change so quickly and so dramatically as was the case in 2007-08. However, there are always some emerging features that may cause national accountants to re-assess their current methodology. One example is the introduction of tradable emission permits as one step to combat global warming. How to record transactions in them is not fully addressed in the 2008 SNA, and given their rapid uptake and the large values concerned it is clear that this shortcoming needs to be remedied quickly.
- A4.3 While the 2008 SNA addresses some of the issues connected with globalization, such as the changed treatment of goods for processing in response to increased outsourcing of services, it is clear that there may be other aspects of this trend that may lead to a reconsideration of how the phenomenon is reflected in the accounts. One possibility is alternative, supplementary, presentations of multinational enterprises based on alternative definitions of residence and ownership.
- A4.4 It is not possible to expect to capture all the issues that will arise even in the near future. The objective of this chapter is to list those that have emerged in the course of the present revision but where more extensive consideration is needed than was possible in the course of the revision. Some may result not in changes to the SNA but simply greater clarification of some points. This list will be kept on the United Nations Statistics Division website and updated as new items emerge and those recommendations on existing items are agreed.
- A4.5 In assessing the priority to be given to an item, three questions need to be addressed.
- How urgent and important is the topic to ensure that the SNA continues to be relevant to the users?
 - How widespread are the consequences of change and how complicated will implementation be?
 - Is the topic completely new or has much of the preparation for considering the item been completed?
- The process of selecting items for investigation is one that will involve widespread consultation and involvement of both compilers and users in the review process.
- A4.6 All attempts to update the SNA, including the experience of the 1993 and 2008 revisions, show that it is very difficult to update only parts of the system because of the integrated nature of the accounting rules. The list of issues that follows is grouped broadly by subject area but it should be recognized at the outset that each is likely to have consequences beyond the subject heading.
- A4.7 The topics identified to date have been grouped into four broad headings. These are:
- Basic accounting rules;
 - The concept of income;
 - Issues concerning financial instruments;
 - Issues involving non-financial assets.
- Each of these is the subject of one of the following sections.

B. Basic accounting rules

1. The relationship of SNA and IASB

A4.8 The International Accounting Standards Board is an independent, privately funded accounting standard-setter. The Board members come from nine countries and have a variety of functional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements.

A4.9 The IASB works with national commercial accounting standard-setters to achieve convergence in accounting standards around the world. Nearly one hundred countries currently require or permit the use of IFRSs (International Financial Reporting Standards) or have a policy of convergence with them. The development of IFRSs reflects the changing needs and circumstances of the global economy in ways that can be directly relevant to the use and requirements of the SNA. The adoption of IFRSs by corporations can have a major impact on corporate accounting and the data available from corporate accounts.

A4.10 The IASB works in a three-stage process to develop a new standard. The first is a draft with an invitation to comment (ITC); the second is an exposure draft (ED) also inviting comment; the third is the new standard. At each stage the background to the issue is clearly explained and the reasons are given for the choice recommended. In both the first two stages comments are invited from any interested party. The development of a regular dialogue between the national accounts community and the IASB would be a way to assure the needs of national accountants were represented to the IASB and national accountants were aware of the possible developments in the data sources. Already during the 2008 revision consultation of IASB standards and their counterpart for public accounting standards (the International Public Sector Accounting Standards Board, IPSASB) has been extremely beneficial. It is therefore desirable that a dialogue be established and maintained with the IASB with a view to amending the SNA to follow new accounting standards when appropriate.

A4.11 One area of developing interest in international accounting, relating back to the question of multinational enterprises, is that of mergers and acquisitions. The text in chapter 21 draws on information in the OECD *Benchmark Definition of Foreign Direct Investment*. IASB work in this area should be monitored to see if these recommendations need amending.

2. Consolidation of enterprise groups

A4.12 Many enterprises operating within an economy are linked with other enterprises by complete or partial common ownership and a shared management structure to form an enterprise group. Enterprises also often share common ownership and management with foreign affiliates. It is common for enterprises within an enterprise group to trade with each other, sometimes exclusively, as when they perform an intermediate stage in a vertically integrated production process, and share the outputs and costs of

ancillary production. They may also share the outputs and costs of research and development activities. Given their close ties it may be sometimes desirable to consider an enterprise group as a single entity and to consolidate the accounts of its members. (This is already the practice in some other statistics such as AMNE, FATS and Bank for International Settlements (BIS) consolidated presentations.) Members of an enterprise group are usually engaged in different activities and sometimes in more than one sector, and so consolidation could affect aggregates, such as industry value added, and sectoral balance sheets. It is therefore probable that the most likely way forward would be by way of supplementary tables.

A4.13 Separate consideration needs to be given to the case where some parts of the group are non-resident.

3. Trusts

A4.14 The SNA recommends that trusts be treated as quasi-corporations. In some cases, though, when one is used in effect as an SPE for a corporation, it is not considered to be a separate institutional unit but is merged with its parent, so long as they are both resident in the same economy.

A4.15 No detailed description of trusts is given, though some may be owned by households and NPIs as well as by corporations. Further clarification on the nature of trusts and when their assets should be treated as belonging to separate units and when merged with the assets of their owners would be helpful.

4. Final consumption of corporations

A4.16 In the SNA, no final consumption is recorded for corporations because corporations are not considered to be final users of goods and services, except for capital products which, with the exception of valuables, are acquired for the purpose of production. However, large corporations often undertake sponsorship of cultural and sporting events. To date, the SNA regards the payments involved as a form of advertising but it could be argued that they are a form of individual consumption and could be treated as final consumption expenditure of corporations and social transfers in kind to households. Further, by imposing regulations such as environmental standards, the government may achieve the same effect as if they levied taxes and spent the income on environmental protection, which would be treated as collective consumption. There may thus be instances where it would be more appropriate to record some expenditures by corporations as final consumption.

5. Measuring the output of government services

A4.17 The SNA recommends that the value of non-market production provided without charge, or at prices that are not economically significant, should be estimated as the sum of the costs of production (paragraphs 6.128 to 6.132). The basis for this recommendation is the lack of market

prices for non-market production. However, there is continuing research on trying to find alternative ways to measure the output of government.

6. The treatment of social transfers in kind to the rest of the world

- A4.18 In the SNA, social transfers in kind only take place between government units, NPISHs and households. Paragraph 8.141 explains that it is assumed that the amount of social transfers in kind payable to the rest of the world are probably negligible and, in any case, are offset by similar benefits receivable from the rest of the world. In some cases, these assumptions may be inappropriate and an explicit way of recording these could be elaborated. Such an elaboration would have to consider the consequences of having a difference between total consumption expenditure and total actual consumption.

7. Output of central banks: taxes and subsidies on interest rates applied by central banks

- A4.19 The treatment and measurement of the output of central banks is described in paragraphs 6.150 to 6.151. Three broad groups of financial services are identified: monetary policy services, financial intermediation and borderline cases.
- A4.20 One of the borderline cases arises when the financial intermediation of central banks includes policy measures, such as setting interest rates higher or lower than market interest rates. This generates a number of issues. The first is how to measure the output of the central bank, because the

C. The concept of income

1. Clarification of income concept in the SNA

- A4.23 As discussed in paragraph 8.24, the concept of income in the SNA differs from that generally understood in economics. In particular, holding gains and losses are not considered to form part of income in the SNA. It is not only economic theory that treats holding gains and losses as income, but also business accounting standards. The SNA excludes holding gains and losses from production and then extends this to an exclusion from most income flows, though not interest which continues to be recorded in nominal terms. A thorough review of the concept of income in the SNA, including the implications for all property income flows would be beneficial. Some particular aspects are covered in some of the following items.

2. GDP at basic prices

- A4.24 Gross domestic product (GDP) is equal to the sum of the gross value added of all the institutional units resident in a territory engaged in production (that is, gross value added at basic prices) plus any taxes, minus any subsidies, on products not included in the value of their outputs. GDP is

use of off-market interest rates by the central bank may cause distortions in measuring its output and value added. The second issue concerns the use of off-market rates which implies that there are flows between the central bank and the counter-party in addition to those concerned with financial intermediation.

8. The treatment of establishments in the SNA

- A4.21 At the present there are two reasons to have the concept of establishment within the SNA. The first of these is to provide a link to source information when this is collected on an establishment basis. In cases where basic information is collected on an enterprise basis, this reason disappears. The second reason is for use in input-output tables. Historically, the rationale was to have a unit that related as far as possible to only one activity in only one location so that the link to the physical processes of production was as clear as possible. With the change of emphasis from the physical view of input-output to an economic view, and from product-by-product matrices to industry-by-industry ones, it is less clear that it is essential to retain the concept of establishment in the SNA.

9. The inclusion of international organizations in the SNA

- A4.22 In the SNA, international organizations are treated as units that are resident in the rest of the world (paragraphs 4.173 to 4.175). It would in principle be possible to treat international organizations as a standard subset of the rest of the world and indeed to compile a full set of accounts for them.

also equal to the sum of final expenditures minus expenditures on imports by institutional units resident in a territory. The "natural" valuation of the production measure of GDP is basic prices, while the "natural" valuation of the expenditure measure of GDP is market prices. In the SNA it is the production measure that is adjusted (by adding taxes less subsidies on products) to achieve consistency. Implicit in this is the idea that taxes less subsidies on products are a form of income and not just a form of redistribution of income.

- A4.25 If it were decided to value GDP at basic prices then the sequence of accounts would need to be modified, and there are various possibilities as to how this might be done. This might lead to showing the two primary functions of government, production of non-market services and redistribution of national income, separately.

3. The role of taxes in the SNA

- A4.26 As just noted, taxes on products are treated as a form of income in the SNA. Most economists, however, tend to regard these as taxes on consumption. This category does

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not exist in the SNA and nor does consumer subsidies. Taxes on financial transactions (such as taxes on issue, purchase, and sale of securities) are treated as taxes on production even though there is often no service involved. It may be appropriate to review the SNA treatment of all taxes and subsidies to ensure that these accord with users' understanding and need, or if not that the rationale for any differences is made quite explicit and prominent.

4. Life insurance

A4.27 At present in the SNA there is an inconsistency between the treatment of property income accruing to pension beneficiaries under a defined benefit scheme and other forms of life insurance. For the pension beneficiaries, the amount of property income ascribed to them matches the increase in their claims with no reduction of property income made according to whether the source of funding is from holding gains or not. For life insurance policies, insurance companies retain part of the holding gains made on reserves belonging to the policyholders but this retention is not treated as part of the fee charged by insurance companies. Thus there may be an understatement of the output of insurance companies. This question needs addressing and also the appropriate treatment when holding losses occur.

5. Reinvested earnings

A4.28 The SNA recommends that the retained earnings of a foreign direct investment enterprise should be treated as if they were distributed to foreign direct investors in proportion to their ownership of the equity of the enterprise. These earnings are then reinvested by those owners as additions to equity in the financial account. This amount is in addition to any actual distributions made out of the distributable income. This approach is also adopted for the earnings of investment funds.

A4.29 It has been proposed that this treatment could be extended to other types of unit, particularly public corporations. If the attribution of retained earnings to the owners of corporations were adopted, it would mean that dividends would be replaced by reinvested earnings in the allocation of primary income account and this total less dividends actually paid would be shown as additions to (or in some case withdrawals from) equity in the financial account. This would mean that distribution of earnings from corporations was measured on a strict accrual basis but would also mean that the saving of corporations would always be zero. Such a change would have serious implications for interpretation of the accounts since it would be built on a different paradigm from the current treatment of dividends and corporate saving.

6. Accruing interest in the SNA

A4.30 Through the 1990s and into the 2000s a vigorous discussion was conducted among the international statistical community about the appropriate way to record interest on securities such as bonds. Two general approaches were identified in the discussion, the so-called debtor and creditor approaches.

A4.31 The ISWGNA established an Electronic Discussion Group (EDG) in 1999 to obtain the views of a broad group of users and compilers on how macroeconomic statistics should record the accrual of interest on bonds and other tradable debt securities. The moderator of the EDG provided a report in October 2002 that concluded that while the participants to the EDG were strongly divided, the majority were in favour of the debtor approach. The ISWGNA subsequently considered the report and supported its conclusion. It then made a recommendation to the UNSC proposing that the SNA should recommend the debtor approach and the UNSC agreed. The recommendation and descriptions of the two approaches can be found in paragraphs 17.252 to 17.254.

A4.32 Discussion of certain update issues, including the treatment of concessional loans, non-performing loans, interest on index-linked debt securities and interest in arrears, showed that the debtor/creditor debate has implications beyond the recording of interest on securities. A full consideration of the definition of income in the SNA would have to reconsider this issue.

7. Calculation of FISIM

A4.33 The treatment of financial intermediation services indirectly measured (FISIM) is described in paragraphs 6.163 to 6.169. The SNA recommends that FISIM should be calculated with respect to a reference rate that contains no service element and reflects the risk and maturity structure of deposits and loans. Different reference rates may be needed for domestic and foreign financial institutions. The assumption behind the FISIM approach is that it is the service element, and not the interest flows, that reflect varying degrees of risk, with riskier clients paying a higher service charge. This assumption has been queried and is being investigated.

8. High inflation

A4.34 It has long been recognized that high inflation can distort measures of interest, since a portion is required simply to counteract the real holding losses that occur for financial instruments that are not indexed for inflation. By the 1970s, when inflation was an important problem throughout much of the world, the treatment of interest under high inflation was considered an important issue for national accounts. However, contrary guidance is given by Annex B to chapter XIX of the 1993 SNA and chapter 7 of *Inflation Accounting - A manual on National Accounting under Conditions of High Inflation* (Organisation for Economic Co-operation and Development, 1996). It is therefore recommended that the search for a single universally accepted treatment of interest under high inflation remains on the research agenda.

9. The measurement of neutral and real holding gains and losses

A4.35 The SNA recommends the nominal holding gains and losses recorded in the revaluation account should be decomposed into neutral and real holding gains and losses. In paragraph 12.85, the use of a comprehensive price index covering as wide a range of goods, services and assets as

possible is recommended. Some national accountants have suggested that different price indices should be used for different classes of asset. The full impact of this suggestion requires investigation.

10. Income arising from assets

A4.36 The introduction of capital services into the SNA recognizes that part of value added is due to the contribution of fixed assets and other non-financial assets to the income generated by production. A question has been raised about whether some part of value added should also

be attributable to the financial resources available to the producer.

11. Income from activities undertaken on an informal basis

A4.37 Establishing the connection between the work on the informal sector and the SNA was an important contribution of the 2008 update to the SNA. Interest in this area continues to attract considerable attention especially in developing countries. It is desirable that there should be continuing involvement of national accountants with the work of the Delhi Group and other initiatives in this field.

D. Issues involving financial instruments

1. Issues arising from a financial crisis

A4.38 As noted in the introduction, a financial crisis provides a crucial test of the robustness of the SNA and the adequacy of its recommendations in situations not encountered since the SNA was first adopted. Until all the consequences of the situation in 2008 are revealed, and indeed thereafter, there will be a need to continue to examine the steps taken in response to the crisis to ensure both the steps and their consequences are adequately captured in the national accounts.

2. Recognition of social security entitlements as liabilities

A4.39 As discussed in part 2 of chapter 17, social security entitlements are not recorded in the main accounts but they are shown in a supplementary table along with the pension entitlements of some other pension schemes managed by general government. Provisional criteria for determining whether the entitlements are shown in the main accounts or only in the supplementary table are described in paragraph 17.187. Work continues to refine these criteria and to find agreed methods to determine the value of these liabilities.

3. Wider use of fair value for loans

A4.40 The SNA recommends that the values of loans to be recorded in the balance sheets of both creditors and debtors should be at nominal value, that is, at the amounts of principal that the debtors are conceptually obliged to pay the creditors when loans mature. However, it is common for the fair value of loans to differ from the nominal value for a number of reasons. At present the SNA recommends memorandum items recording fair values only for loans specifically characterized as non-performing. The possibility of a more extensive use of fair value in place of nominal value could be considered.

4. Provisions

A4.41 In business accounting, there are three degrees of "promises": liabilities, provisions and contingent liabilities. Their definitions are the following.

- A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.
- A provision is a liability of uncertain timing or amount.
- A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A4.42 In the SNA, liabilities and provisions relating to financial instruments are generally recognized in the main accounts only if there is a corresponding financial asset of equal value held by a counter-party. However, it is recommended that certain provisions that do not satisfy this criterion, such as those for non-performing loans, should be recorded as memorandum items. Contingent liabilities are not recognized at all in the core accounts, except in the case of standardized guarantees.

A4.43 The problem is that recognition of a reduction in the value of an asset in the SNA necessarily implies a reduction in the corresponding liability but the asset holder may not wish to reveal to the counter-party the fact that they regard some of the claim as uncollectable. Not doing so however overstates the value of the assets.

5. Debt concessionality

A4.44 Further work is required to clarify whether concessional loans involve a subsidy on any service charge associated with interest payments or a transfer representing the difference between the market rate of interest and the agreed rate. If the latter, the next problem is whether the

transfer should be paid period by period on an ongoing basis as a current transfer or as a one-off capital transfer at the time the loan is issued.

6. Equity valuation and its implications

A4.45 At the moment there are a number of alternatives for valuing equity given in the SNA. There is a question about whether more standardized recommendations can be made.

E. Issues involving non-financial assets

1. Tradable emission permits

A4.47 Tradable emission permits are a relatively new phenomenon, but they are gaining rapidly in importance. The full treatment of all types of permits is not explicitly described in the SNA, and in order to remove uncertainty, this shortcoming should be addressed as quickly as possible.

2. Leases to use or exploit natural resources

A4.48 Part 5 of chapter 17 deals with the treatment of licences and permits to use a natural resource. Because the treatment for individual resources was developed independently there are some inconsistent treatments recommended.

A4.49 In the case of a natural resource that has an infinite life and whose use in production does not affect the nature or value of the asset, the owner may allow the resource to be used for an extended period of time in such a way that, in effect, the user controls the use of the resource during this time with little if any intervention from the legal owner. In the case of land, the SNA recommends that the agreement between the owner and the user constitutes a sale of the land. In the case of a lease of the radio spectrum, the SNA recommends that the permission to use the spectrum does not change the ownership of the spectrum but constitutes a non-produced asset under the heading contracts, leases and licences. In the case of permission to use the atmosphere or a water body as an environmental sink, the SNA recommends that the payment be treated as a tax.

A4.50 In the case of a natural resource that is subject to replenishment and which can be used indefinitely providing the use is restricted and the owner extends or withholds permission to continued use of the asset from one year to the next, payments by the user to the owner are recorded as rent. No adjustment is made to the value of rent recorded as to whether the use is in fact sustainable or not. If it were not sustainable, part of the payment should be seen as being compensation for the non-sustainable use.

A4.51 In the case of a natural resource that is not capable of replenishment on a human time-scale and the use in production eventually exhausts it, the owner may permit

7. Reverse transactions

A4.46 Work on a complex group of transactions known as reverse transactions has been pursued for several years. These transactions take their name from two common characteristics: (i) a commitment to reverse the transaction on a specified future date (or on demand), and (ii) that, although legal ownership is transferred to the purchaser, many of the risks and benefits of ownership remain with the original owner. Reversible transactions include repurchase agreements, securities lending without cash collateral, gold swaps, and gold loans/deposits.

the resource to be used to extinction. In this case the SNA recommends that economic ownership of the natural resource remains with the lessor while the lessee pays royalties recorded as rent. Only the lessee and not the lessor undertakes production. This means that the reduction in the value of capital due to production is recorded in the balance sheet of the owner as an other change in volume of assets. The link between the rundown in the value of the assets and its use in production is lost. As in the previous case, the fact that part of the rent paid is compensation for the reduction in the value of the asset is not recognized.

3. Broadening the fixed asset boundary to include other intellectual property assets

Innovation

A4.52 The fixed asset boundary of the SNA has been expanded to include the output of research and experimental development (R&D) that meets the general definition of an asset. It is evident that R&D captures part, but not all, of the innovation process. It may exclude many expenditures by the production and engineering departments of an enterprise. These same departments may also be responsible for identifying a potential new product and referring it to the R&D department to develop the science behind it. In addition, an enterprise may incur other expenditures before a new product goes to market. These include market research to determine the demand for a new product and marketing expenditures to promote it.

Marketing assets

A4.53 Marketing assets include brand names, mastheads, trademarks, logos and domain names. Marketing is a key driver of brand value and big corporations invest heavily in building and supporting their brands by advertising, sponsorship and other measures to build a positive image with customers. The SNA treats marketing assets as being non-produced and the expenditures incurred in their creation as intermediate consumption. They appear in the balance sheet only when they are sold. The major reason for not treating marketing assets as fixed assets is due to the difficulty of measuring their value.