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Item 3 of the provisional agenda

**STRATEGY FOR THE IMPLEMENTATION OF SNA REV.1**

**PLANNING FOR THE REVISED 1993 SYSTEM OF NATIONAL ACCOUNTS:  
THE CANADIAN CASE**

Note by Statistics Canada<sup>1</sup>

*Summary*

Statistics Canada has introduced several major “historical” revisions to the national accounts over the last half century. The next revision will be linked to the introduction of the Revised 1993 System of National Accounts (SNA 93 Rev.1). This paper addresses key issues in the planning and organization of the work needed for the revision.

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<sup>1</sup> This paper has been prepared at the invitation of the secretariat.

## **I. INTRODUCTION**

1. The term 'Historical Revision' has been used in Canada to describe major revisions to the national accounts that have occurred every 10 – 15 years over the last half century. The timing of the last historical revision and the next has been tied directly to the introduction of new international recommendations through the publication of the 1993 System of national Accounts (SNA 93) and soon SNA 93 Rev 1.
2. Canada has a very centralized statistical system and the macro accounts are also centralized within a single branch of Statistics Canada. The SNA Branch which is made up of five divisions has responsibility for all of the SNA accounts from production through to balance sheets plus the full set of external accounts, balance of payments and international investment position, as well as the government financial statistics. There is also a program of environmental accounts.
3. In addition to the work on the international manuals, a number of changes within the Canadian statistical system are leading the need for a historical revision in the Canadian accounts. Over the last decade a number of changes have occurred that are pushing the accounts to change. First, there has been a new emphasis put on the services sector of the economy, secondly, the surveys of economic production were significantly redesigned and integrated over the past few years, thirdly the use of administrative data as a replacement for surveys has grown rapidly and finally, a new business register has recently been deployed that has led and is continuing to lead to improved classification of enterprises and establishments.
4. This paper addresses key issues in the planning and organization of the work needed for the next historical revision in Canada.

## **II. HISTORICAL REVISIONS TO THE CANADIAN SYSTEM OF NATIONAL ACCOUNTS**

### **A. The Opportunities**

5. Historical revisions in Canada have also been the occasion for significant reviews of the concepts and methodologies used in the Canadian accounts as well as the occasion to introduce significant changes in the data due to new or greatly improved data sources. In addition these historical revisions have served as opportunities to expand the scope of the Canadian accounts or improve the integration of the macro accounts.
6. The improvements in both the scope and quality of the data have obvious benefits for the users of the accounts. In addition, the process of reviewing ones concepts and methods provides an excellent opportunity for learning. By involving as broad a spectrum of employees in the review process as possible, these occasions provide an ideal opportunity to assure that fundamental macro accounting principles are well understood and that methodologies are being designed and implemented to consistently measure these concepts.
7. It is also an occasion to strengthen communication with users. Here the learning can be in both directions. There is an opportunity to insure that the current concerns and needs of users

are understood and addressed to the extent possible but also an occasion to inform users of the strengths and limitations of the macro accounts.

## **B. The Scope**

8. The review process in the case of Canada will cover all of the recommendations for changes coming from SNA 93 Rev1 and BPM6. In addition, aspects of SNA93 and BPM5 that were not implemented in Canada in the last historical revision for various reasons will be reviewed and it is expected that some will be introduced with the next revision.

9. On the other hand, the review of methodologies will be broad as it is an occasion to challenge the perceived wisdom for the methods used throughout the accounts. This broad review of methods also implies a wider review of the underlying methodologies – not in the sense that there is any question of challenging the concept but rather to insure that the methods continue to conform to the concept to be measured in the face of changing economic realities and data sources.

## **C. Fundamentals Considerations**

10. It is important to establish the fundamental objectives of the review and planning process at the outset. The primary objective is to improve the Canadian macro accounts subject to various budget constraints.

11. There is of course the monetary budget that must be respected but increasingly other budget constraints are evident. In Canada, the competition for skilled employees is growing and it is increasingly difficult to recruit and retain a team of knowledgeable staff. As in many other countries, concerns about response burden are also evident in Canada and can limit how new data requirements are addressed. Since these budget conditions vary widely from country to country, the paper will not address these specifically.

12. The first consideration in reviewing possible conceptual and methodological changes is the significance these will have on the results of the Canadian macro accounts and consequently users' perceived understanding of the Canadian economy.

13. Since the Canadian accounts conform relatively well to the international macro standards, it is expected that there will be only a small number of these recommended changes that will have significant impact on the Canadian accounts. The two with the potential to have the greatest impact are the recommendations on R&D capitalization and goods for processing. Specific projects related to these two issues are already underway in Canada and will be extended over the coming year.

14. A second fundamental consideration in the review of the Canada macro accounts is the consistencies across the various macro accounts. The Canadian national accounts, balance of payments and government financial statistics are all produced within a single organization. These accounts are already highly integrated but improving the integration and consistency of these estimates to improve the quality of the data for users is an every present consideration.

15. The accounts must also evolve to reflect the changing structure of the Canadian economy. An example is the relative importance of service industries in the Canadian economy. Some years ago it was decided to significantly expand the production surveys for the service industries and more recently, it was decided to “modernize” our supply use tables by significantly expanding the services sector while cutting back on the detail for the goods industries. Increasing international investment activity for both asset and liabilities is currently leading to users asking for improved data on these aspects of the Canadian economy. These will be considered as the review process proceeds.

16. Consistency in the time series produced is also important for our users, particularly those using the data for modelling and forecasting. While the Canadian accounts have a long history of providing long time series on the occasions of these historical revisions, the challenges in the next round will be considerable. It may be that it will not be possible to provide very lengthy time series due to data limitations and budget constraints. This will be one of the more important points to be considered during this revision, in particular in our consultations with users.

#### **D. The Planning and Decision Process**

17. The historical revision process is seen as important to all aspects of the economic statistics program and not just the macro accounts. Therefore the process will include participation from a broad spectrum of managers and program staff.

#### **E. Steering Committee**

18. A steering committee will be established that will include the senior managers of the macro economic programs and also senior managers for some economic survey programs. The steering committee will be responsible for guiding the overall process and for the final decisions on what recommendations to follow and what methodologies to implement.

19. The broad basis of the steering committee is particularly important in pursuing the objective of consistency across the accounts and other economic data programs. Coordination of communications outside Statistics Canada will also be an important responsibility of the steering committee. This will include communications with key data suppliers outside Statistics Canada, either directly or indirectly through the responsible Statistics Canada program.

20. The steering committee will also be responsible for insuring that a broadly based user consultation process is put in place and members will be directly responsible for communication of key aspects of the revisions process to users and other related senior officials outside of Statistics Canada.

#### **F. Review Teams**

21. The foundation of the revision process is a number of Review Teams that will be created to address specific sets of issues; generally these teams will address both conceptual and methodological issues. The teams may be organized based on different aspects of the accounts –

sectors, industries, account, transaction or asset for example<sup>2</sup>. These teams may be multi-disciplinary, drawing expertise from different domains such as macro accountants, economic survey managers, methodologists and systems developers.

22. Given the integrated nature of macro accounts and the fact that teams on based on a variety of aspects, there will invariably be overlap in the issues covered by these teams. This must of course be managed, but, is viewed as an important ingredient in maintaining and improving the integration of the accounts. The work of these teams also provides the core opportunity for learning and passing on the conceptual and methodological knowledge fundamental to maintaining the quality of the accounts.

23. The review teams will be responsible for fully documenting each issue and developing proposals with appropriate justifications to implement change or maintain the status quo. These proposals will be forwarded to the steering committee for review and final decision. The proposals and justifications should address the implications for all the components of the macro accounts and other Statistics Canada programs.

24. The documentation should also clearly describe the potential impact on users and describe the communication strategy needed should the change proceed. User impacts can be either for analytical users or in some cases for administrative uses of the data. Any budgetary implications should also be included – both for the implementation of the change and any ongoing budgetary effects. In the cases where the budgetary implications are significant, the review team may be asked to prepare alternate scenarios with a variety of budget consequences. This later point is of particular importance at present as Statistics Canada has recently had a budget reduction that will limit the capacity to undertake significant program changes over the next couple of years.

## **G. Time Frame**

25. The Planning process is formally beginning with the start of the 2008/2009 fiscal year on April 1<sup>st</sup>, 2008 and as such a detailed time table for this work is still under development. However, the broad outline of the time frame has been set. The target at this time is to implement the next historical revision in 2012.

### **(a) Canadian implementation of SNA/BOP Recommendations**

The first stage will be to decide which recommendations of SNA 93 Rev 1 and BPM6 including recommendations not previous implemented should be implemented in the Canada SNA. The target would be to have a preliminary set of recommendations for senior management by the end of 2008 and most final decision by the spring of 2009.

In some cases where budget implications are found to be significant, decisions may have to be postponed beyond that date. It is expected that such cases would be relatively few and that thus by the spring of 2009, the focus could move to the methodologies and data estimation necessary to implement the revision.

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<sup>2</sup> As mentioned, work on R&D capitalization and goods for processing is already underway but the teams addressing these important issues will be expanded over the next year.

- (b) Recommendations on revisions to methods and historical data series  
The second stage would be to develop and decide on methodological changes by the fall of 2010. The work on methodologies and historical data series will include some data development but it will be important to have all decisions on methods completed by the fall of 2010 so that estimates and procedures can be set in place in time to assure data quality before publication.
- (c) Publication of revised accounts  
The last year and a half will be focused on finalizing the estimates and insuring consistency across the integrated set of macro accounts. This should be seen as a particularly important phase with respect to data quality. It is important that the data be consistent and that a coherent communication program be developed to explain the new values to users if they are to continue to have confidence in the estimates. The revised estimates will be published in the spring through fall 2012 as the normal release dates of different components of the macro accounts come up.

## **H. Consultation with Users**

26. The importance of user consultation has already been raised, the following section outlines some of the specific activities anticipated over the next few years. The potential impacts from R&D and goods for processing and the complexity in explaining these to users has lead us to conclude that special efforts will be required for these issues.

27. The consultation process will use both regular meetings with key users such as meetings of Advisory Committees and specially organized seminars and presentations through such bodies as academic associations or associations of business economists.

- (a) Special Consultations - R&D and Goods for Processing  
A satellite account for R&D is already under development and it is expected that a paper presenting preliminary results will be published in May 2008. Once this paper is available, it is planned to hold a series of seminars with academic and business economists and other users to present the results and to get their feedback. The seminars will likely take place over the summer and early fall of 2008 with a second paper anticipated in late 2008 or early 2009. The work on this satellite account will be the basis for deciding what progress expected in early 2009.  
Assuming it is decided to introduce the R&D capitalization in the core accounts in 2012, the satellite estimate will be refined over the next three years and additional seminars and presentations on these results will be conducted.  
The work on goods for processing is not as far along. No empirical work has been done to date in Canada although papers on the conceptual aspects have been prepared and delivered conferences and other meetings. Also, some consultations have begun with key users such as the Ministry of Foreign Affairs and International Trade.

The focus of the work on this subject is via the Working Group on the Impact of Globalization on the SNA that will meet for the first time in April. Canada will be an active participant in this meeting leading the discussion on goods for processing.

As this work progresses further, the consultation with users will be expanded through the publication of papers and additional seminars and presentations.

(b) General User Consultations

Following the work of the review teams and the decisions on conceptual and methodological changes to be introduced in 2012; a general paper will be prepared outlining all of the changes. This paper will be published in advance of the data releases and supplemented with specific presentations and seminars on selected issues. The extent of these consultations will depend on the extent of the changes to be introduced.

**I. Other Considerations**

(a) Ease of transition for users

Historical revisions of macro data are particularly difficult for some users who rely on large amounts of data. Economic modellers and forecasters use very large numbers of series. The revisions of all of the macro accounts all at once implies a very heavy work load for these users and thus this should be considered in the planning of the data releases.

One should consider how to provide access to the new data in an efficient manner so that these users can maintain the valuable services that they perform without undue interruption.

(b) Briefings to key policy users on changing values

Some revision may have significant impact on key ratios or “rules of thumb” used by analysis and it will be important to insure they understand the changes anticipated in such data before it is released.

An example might be the results from introducing the recommendation on goods for processing in some countries. A paper by Hong Kong<sup>3</sup> indicates that the goods for processing change will fundamentally change the perception of the Hong Kong economy from one with a surplus on trade goods and a deficit on services to exactly the opposite. It will be very important that analysis and policy makers are fully aware of such a change prior to release of any official data.

While this may be a very dramatic example, smaller changes can still have important impact and all macro data producers should consider such implications in their respective economy.

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<sup>3</sup> The following papers describe the outstanding differences as well as the record of changes resulting from the 1997 historical revision: Kishori Lal, “*Remaining Differences Between the 1997 Canadian System of National Accounts and the 1993 International System of National Accounts*”; September 1998. Kishori Lal, “*Record of changes in Classification of Sectors and Transactions, Concepts and Methodology*”. October 1998; Census and Statistics Department, Hong Kong Special Administrative Region, People’s Republic of China, “*Strategy for Implementing Recommendations on Goods for Processing and Merchanting in BPM6 – The Case for Hong Kong*”; Twentieth Meeting of the IMF Committee on Balance of Payments Statistics, Washington D.C., October 29-November 1, 2007