

Workshop on measuring the non-observed economy (NOE) in National Accounts
25-27 April 2007, Bishkek, Kyrgyz Republic

Annex: The Issues Considered during the Update

The following is the list of issues as presented as part of the Full Set of Provisional Recommendations in April 2007. It appeared in English and Russian.

1. Repurchase agreements

A repurchase agreement (repo) involves the sale of securities or other assets with a commitment to repurchase equivalent assets at a specified price. The market for repos has evolved since the SNA guidelines were prepared; in particular, contrary to what the 1993 SNA suggests, the right to on-selling has become almost universal. The treatment of repos in 1993 SNA and the *Balance of Payments Manual*, fifth edition, is similar to that of a collateralized loan or as other deposits if repos involve liabilities classified under national measures of broad money. Should the 1993 SNA treatment be revised?

2. Employers' pension schemes

In the 1993 SNA, promises to pay future pension benefits are not recognized as liabilities of social security schemes or unfunded employer schemes. The review will investigate the analytical relevance of recording liabilities for the latter in the national accounts and, if appropriate, formulate recommendations regarding their valuation and measurement. The review should also address the problems of under- and over-funded defined benefit schemes where at present liabilities are recognized only to the extent that reserves have been built up.

The implications for the definition of output of pension schemes, compensation of employees and saving as well as measurement issues need to be addressed. The review will also lead to a reconciliation of the recommendations of the 1993 SNA and the IMF Government Finance Statistics Manual regarding the treatment of unfunded employer pension schemes.

3. Employee stock options

Employee stock options are a common tool used by companies to motivate their employees. Given that the 1993 SNA does not provide guidance on their treatment, the question is whether stock options should be considered as compensation of employees and therefore as a cost to employers. Doing so would permit further harmonization with international business accounting standards.

4. Valuation of non-performing loans, loans and deposits

4.a Non-performing loans

The financial crises of the 1990s led to renewed interest in the statistical treatment of non-performing loans. The purpose of the review is to determine what criteria should be applied in the SNA to the writing-off of non-performing loans and to make sure that they are consistent with the other major macroeconomic statistical systems (balance of payments, government finance statistics, and monetary and financial statistics).

4.b Valuation of loans and deposits; Write-off and interest accrual on impaired loans

The valuation of loan positions and deposits are subject to alternative perspectives. Nominal or face value valuation might be misleading because of the risk of default and/or changes in interest rates. This difference becomes apparent when the loans are traded. However, these valuation issues are equally applicable to non-traded loans. Business accounting standards are considering using the concept of “fair value” for the valuation of loans as if they were traded. Should the SNA introduce a valuation other than nominal for deposits and loans?

5. Non-life insurance

Several instances of massive insurance claims, notably those from the 11 September terrorist attack, focused attention on the measurement of non-life insurance services when catastrophic losses occur.

This necessarily involves considering the treatment of reinsurance also. The output of insurance services as calculated using the 1993 SNA algorithm depends on the balance of premiums and claims (on an accrual basis). Output can therefore be extremely volatile (even negative) following major catastrophes, and this volatility impacts on GDP and balance of payments (reinsurance). The objective of the review is to propose measures that would be more consistent with the perception of production in this activity. In particular, medium- to long-term aspects of non-life insurance are to be taken into consideration. The issue will also cover the measurement of production of non-life insurance services in volume terms.

6. Financial services

6.a Financial services

The business of financial corporations has undergone a structural transformation towards an increasing importance of portfolio management of financial assets with the aim of generating holding gains and a decreasing importance in simple intermediation. The definition of financial corporations and of financial services needs examining to ensure all the activities of financial corporations are adequately captured in the SNA. The review will also cover the measurement of production of financial services in volume terms.

6.b Allocation of the output of central banks

The 1993 SNA recommends that the services of central banks be measured on the basis of receipts from fees, commissions, and financial intermediation services indirectly measured (FISIM). This method sometimes results in unusually large positive or negative estimates of output. In 1995, the ISWGNA therefore decided to allow countries to measure the output of central banks, as a second best, at cost.

However, the ISWGNA did not provide further guidance on the implications of this method. The review seeks to clarify the impact of the different roles that central banks perform on the nature of their output and the appropriate valuation and allocation to associate with the output of central banks.

7. Taxes on holding gains

Taxes on capital gains are treated as taxes on income and deducted from income while the tax base (the realized holding gains) is not included in the SNA definition of income. Is this a contradiction that should suggest alternative treatments or should the SNA treatment remain the same?

8. Interest under high inflation

The treatment of nominal holding gains and interest on financial assets under conditions of high inflation was described in the 1993 SNA (Chapter XIX, Annex B) and subsequently in the OECD publication *A Manual on Inflation Accounting*. These two publications take different approaches, however. What should appear in the 1993 SNA Rev. 1?

9. Research and development (R&D)

The 1993 SNA does not recognize the output of R&D as capital formation, despite the fact it is thought to be a major contributor to future economic growth. If the SNA were to be changed, should all expenditure on R&D, or only some, be recorded as capital formation? Can all the practical difficulties of deriving satisfactory estimates be overcome, for example by using expenditure data collected in accordance with the Frascati Manual, and obtaining appropriate deflators and service lives?

10. Patented entities

In the 1993 SNA, patented entities are treated as non-produced intangible assets. However, payments received from patent users are by convention recorded as payments for services (similar to rentals from an operating lease of fixed assets). This is contrary to the SNA accounting rules, which treat payments for the use of non-produced assets as property income. If R&D is not treated as capital formation, should the payment for use of patented entities continue to be treated as a payment for services?

11. Originals and copies

Following the 1993 SNA's introduction of computer software as capital formation, it became more evident that the SNA does not provide guidance on the treatment of originals and copies as distinct products. Should expenditures on originals and copies both be recorded as expenditure (on new goods) on the basis that originals are distinct from copies, or should originals be considered as being analogous to a 'stock' of copies, and so expenditure on a copy partly (or mostly) reflects a sale of an existing good? How should the transactions in copies be recorded?

12. Databases

The 1993 SNA recommends that large databases should be capitalized. Should the SNA provide a clearer definition of databases to be capitalized covering characteristics such as size and marketability of the data as well as the database itself, or should all databases be capitalized? How should the value of a database be determined?

13. Other intangible fixed assets

In the Annex of Chapter XIII, the 1993 SNA describes this item as consisting of "new information, specialized knowledge, etc. not elsewhere classified items, whose use in production is restricted to the units that have established ownership rights over them or to other units licensed by the latter". No specific examples of items to be included have yet emerged. Should this category be retained or removed?

14. Costs of ownership transfer

The cost of transferring ownership of financial assets is treated as current expenditure while that for non-financial assets is treated as capital expenditure. The initial question was whether costs of ownership transfer on non-financial assets should continue to be treated as capital expenditure or be treated as current expenditure. The review was expanded to cover the treatment of costs of ownership transfer on disposal of an asset, including terminal costs, and the period over which costs of ownership transfer should be written off via consumption of fixed capital.

15. Cost of capital services

Capital services provided by non-financial assets to the production process are not explicitly defined by the 1993 SNA. The OECD manual *Measuring Capital* defines capital inputs as the actual or estimated pure economic rent payable; that is, by the sum of consumption of fixed capital, expected holding gains/losses and the capital, or interest, costs. The rental, paid by the user of a rented non-financial asset to the owner, covers both the costs incurred by the owner in providing the service and the capital services rendered by the asset to the owner. For non-financial assets used by the owner, capital services appear implicitly as part of the gross operating surplus. How should the concept of capital services be articulated in the SNA?

16. Government and non-market producers: cost of capital of own assets

When summing costs to measure non-market output, the 1993 SNA recommends that the value of the services provided by a producer's own non-financial assets should be measured as consumption of fixed capital. This means that neither a return on capital to these assets nor, equivalently, an opportunity cost of capital is recognized. This leads to an inconsistency with the rental that would have to be paid if the assets were rented. Should the SNA recommendation be changed and the cost of consumption of fixed capital be replaced with capital services (consumption of fixed capital, expected holding gains/ losses and the capital or interest costs)?

17. Mineral exploration

Expenditures on mineral exploration are classified in the 1993 SNA as gross fixed capital formation. The rationale is that mineral exploration creates a stock of knowledge about the reserves that is used as input in future production activities. The question has been raised as to whether this knowledge should be seen as independent of the stock of economically exploitable reserves or whether this leads to double accounting when both discovered stocks of resources and stock of exploration are capitalized.

18. Right to use/exploit non-produced resources between residents and non-residents

Except for land, transactions between residents and non-residents relating to the right to use or exploit non-produced resources have not been fully elaborated in the 1993 SNA. For land, a notional resident unit is created that is deemed to purchase the land while the non-resident is deemed to purchase a financial asset (equity) of the notional unit. Should the treatment of land be extended to other non-produced resources such as water, fish, etc. or should there be alternative treatments?

19. Military expenditures

The 1993 SNA divides military acquisitions into offensive weapons and their means of delivery, and all other. The former are excluded from capital formation regardless of their life length. This treatment implies that "defense" is not a service provided by government using military hardware as associated assets.

Further, weapons that have already been expensed can actually be taken out of stock for use or for exports and would have to be balanced by a negative component in government final consumption. Should the line between gross capital formation and intermediate consumption be drawn differently?

20. Land improvements

The 1993 SNA records improvements to land as gross fixed capital formation, but in the balance sheet such improvements are included with land itself – a non-produced asset.

Should land be split into two, with one part recorded as a fixed asset and the other part recorded as a non-produced asset? If so, how should the separation be made? One option is to distinguish between land that is in, or nearly in, its natural state as a non-produced asset and the remainder as a fixed asset. Another option is to separate land from the improvements made to it, and record the former as a non-produced asset and the latter as a fixed asset.

21. Contracts leases and licenses

The 1993 SNA refers to contracts, leases and licenses in a number of contexts but there is no overview that sets out the principles of the appropriate treatment of all such arrangements. Further, clarification is desirable concerning several specific points:

1. the definition and treatment of operating and financial leases on fixed assets,
2. when legal constructs should be recognized as assets,
3. whether tradable government permits should be treated as assets,
4. can sub-contracting lead to the creation of an asset,
5. can a difference between a contract price and the corresponding prevailing price affect the treatment of existing leases.

22. Goodwill and other non-produced assets

The 1993 SNA records goodwill (as purchased goodwill) only when an enterprise is sold. and it treats purchased goodwill for corporations and unincorporated enterprises differently. Should goodwill continue to be recognized only when purchased or should internally generated goodwill be recognized? Should purchased goodwill be treated the same way for corporate and unincorporated enterprises? Should the balance sheet recognize assets such as brand names, trademarks, franchises, etc.?

23. Obsolescence and consumption of fixed capital

Consumption of fixed capital is defined in the 1993 SNA in general terms as the decline, during the course of the accounting period, in the current value of the stock of fixed assets owned and used by a producer as a result of physical deterioration, normal obsolescence or normal accidental damage.

This decline is expressed in the average prices of the period, but the 1993 SNA does not give guidance about whether the prices to be used should relate to the general price level or whether they should be asset specific.

24. Public-private partnerships (PPPs) (including buy-own-operate-transfer (BOOT) schemes)

Public-Private Partnerships (PPPs) are complex legal arrangements designed to share the control and the risks and rewards of a set of fixed assets between a private enterprise and a public unit, normally a unit of the general government sector. In most PPPs, the assets are legally owned and used by the private enterprise to produce a specified category of services for several years, and then the government gains operational control and legal ownership of the assets, often without payment.

The 1993 SNA treatment of operating and financial leases are not sufficient to derive an appropriate accounting treatment for PPPs and there are no other guidelines given about PPPs. There are two major issues to be resolved. The first is to decide whether the private enterprise or the government is the economic owner of the fixed assets. The second is to decide the appropriate recording for transactions between the private enterprise and the public unit during the period covered by the PPP arrangement.

25. Units

25.a Ancillary units

The 1993 SNA specifies that units conducting only a specified list of activities designated as “ancillary” should not be treated as separate units but their costs should be consolidated with the units they serve. This means that when accounts for a region are compiled, head offices and other ancillary units located there are excluded if the units they serve are located outside the region. This results in a difference between ancillary units located abroad, which are treated as separate units, and those that are resident but distant from their related enterprises. Should the principle of not treating ancillary units as separate units be changed and what are the consequences throughout the accounts?

25.b Holding companies, special purpose entities, trusts

As part of the innovation in financial markets and asset management over the last decade, several forms of separate entities have come into existence that only hold assets or liabilities but do not engage in production. Such entities are separate new or existing legal structures assigned for specific purposes such as specialized portfolio management of assets and debts, restructuring agencies, special purpose entities, shell companies, limited liability partnerships or trusts. Should these entities be treated as ancillary and merged with their related enterprises, or should they be treated as separate units? If they are separate units, to which sector should they be allocated?

25.c Treatment of multi-territory enterprises

The 1993 SNA follows the *Balance of Payments Manual* in allowing for a single enterprise run as a seamless entity with substantial operations in two or more economic territories to be regarded as having a centre of economic interest in each of the countries where it is recognized by the tax and licensing authorities, but only when the activity is operating mobile equipment such as ships, aircraft and railways. In these cases, the possibility is for all the enterprise’s transactions to be allocated to the countries of registry in proportion to the financial capital that the countries have contributed or their share of equity in the enterprise. Should this treatment be extended to other activities, for example hydro-electric schemes on border rivers and pipelines? Should reference be made to joint sovereignty zones and zones of joint jurisdiction?

25.d Non-resident unincorporated units

The *Balance of Payments Manual (BPM)* indicates that establishments of enterprises located in a country different from the country of residence of the parent should be treated as notional units, resident in the country where located under certain conditions. The SNA discusses non-resident unincorporated enterprises rather than establishments. Should the SNA and *BPM* be more closely aligned?

25.e Non-resident SPEs controlled by government

Is special treatment required for non-resident units established abroad by government for fiscal purposes?

26. Cultivated assets

During discussions about the System of Economic and Environmental Accounts, it was noted that the present definition of cultivated assets in the SNA is ambiguous. Should the definition in the SNA be tightened as follows: “cultivated assets cover livestock for breeding, dairy, draught, etc. and vineyards, orchards and other trees yielding repeat products *whose natural growth and regeneration is* under the direct control, responsibility and management of institutional units”?

The words in bold italics replace the words “that are” in the 1993 SNA.

27. Classification and terminology of assets

Should the classification of non-financial assets be revised in light of the review of a wide range of non-financial assets? Is the tangible/intangible dichotomy still of primary importance in the classification?

28. Amortization of non-produced assets

The final report of the ISWGNA in 2001 on mobile phone licenses includes a brief discussion of the issue of the amortization of intangible non-produced assets. Can a way be found to show the impact on net worth of the decline in the value of non-produced assets due to production via transactions rather than as other changes in the volume of assets?

29. Assets boundary for non-produced intangible assets

The category “other non-produced intangible assets” in the 1993 SNA was a placeholder intended to accommodate any new assets of similar type to those in the general category which did not fall in the more specific headings. However, this heading has been used in some instances to cover the securitization of future receipts of government. Should the heading continue to be included in the classification hierarchy and if so, what sort of items should be included in it?

30. Definition of economic assets

The SNA should provide a clear definition of what constitutes an asset that is consistent with where the asset boundary falls in respect of currently known entities, as well as providing guidance for determining whether entities that appear in the future fall within the asset boundary. It should be accompanied by guidance on how assets should be valued. Does the definition in the 1993 SNA need further elaboration?

31. Water as an asset

When water is no longer free, how should the charge for it be treated? Although a large share of the charges represents distribution costs, is there an element that should be treated as giving rise to rent in a similar way to land or mineral resources? How should the use of water as a sink for waste be treated?

32. Informal sector

An extract from the resolution on statistics of employment in the informal sector adopted by the Fifteenth International Conference of Labour Statisticians (January 1993) is reproduced as an annex to chapter IV in the 1993 SNA. The resolution, among other things, provides an international statistical definition of the informal sector. However, the SNA does not amplify on the definition or provide guidance on its application in a national accounting context.

Given that the informal sector accounts for a substantial portion of production in many countries, such guidance has often been requested. The review should consider whether the updated SNA can provide guidance drawing on work by the Delhi Group on Informal Sector Statistics and by ILO, UNECE, IMF, the Commonwealth of Independent States, and OECD in preparing *Measuring the Non-observed Economy: A Handbook*.

33. Illegal activities

Since the publication of the 1993 SNA, the handbook *Measuring the Non-observed Economy* has considered in detail and provided recommendations on the recording of illegal activities such as bribery, extortion and money laundering in addition to theft and fencing. The review should consider to what extent the recommendations included in the *Handbook* on the recording of production and redistribution of income from such activities should be included in the updated SNA.

34. Government transactions with public corporations: earnings from equity investment and capital injections

The 1993 SNA treatment of withdrawals from quasi-corporations differs from that of payment of dividends from corporations. Dividends are always assumed to be from current earnings, but withdrawals from quasi-corporations may not be. Public corporations are often quasi-corporations and the treatment accorded quasi-corporations allows government to manage the pattern of withdrawals from one year to another for political reasons. Should the

SNA be amended to limit this possibility and if so which of two possibilities is recommended?

The first option is to bring the treatment for quasi-corporations more into line with that for corporations in respect of large and exceptional payments (like super-dividends) as well as of capital injections made by the government as the owner.

The second option would be to adopt an approach for public corporations similar to that for direct investment enterprises and show redistributed earnings (or losses) of public corporations as accruing in the government accounts and then reinvested in (or withdrawn from) the equity of the corporation .

35. Tax revenues, uncollectible taxes and tax credits

(a) *Definition and coverage of taxes*

Is it necessary to clarify the definition of taxes in the 1993 SNA and the distinction between the payment of taxes and payments for services?

(b) *Accrual recording of taxes*

The 1993 SNA describes the conceptual basis on which taxes should be assessed as accruing. Some practical flexibility is allowed in order to ensure that uncollectible taxes are not shown as accruing. Should greater precision be given about the degree of flexibility that is acceptable in relation to (i) the time when accrual is deemed to take place and (ii) the amounts to be shown as accruing?

(c) *Tax credits*

The 1993 SNA does not give guidance on the treatment of tax credits although the *Government Finance Statistics Manual* does. In order to correct this omission, a choice has to be made between recording these as a reduction in government tax receipts and recording some or all as government expenditure. Which alternative should the SNA adopt?

36. Public/private/government sectors delineation

According to the 1993 SNA, two factors determine whether a corporation or non-profit institution is controlled by government and thus falls into the public sector. One factor is the degree of control exercised by government. Concern has been expressed about the “mainly financed” phrase cited in respect of non-profit institutions. The determination of control in respect of special purpose vehicles (SPVs), notably created in the context of public private partnerships (PPPs) or securitization, is not always clear cut. The second factor is about “economically significant prices.”

Concern has also been expressed over possible ambiguity in this concept. Is it possible to give greater content to the description without going so far as to prescribe a fixed proportion of costs to be covered by sales?

37. Granting and activation of loan guarantees

Loan guarantees have a significant impact on economic behavior, especially when issued by government. The 1993 SNA treats guarantees as contingent liabilities and thus has no record of the existence of the guarantee until it is activated. Further, the treatment of flows arising at the activation is not explicit. Should obligations arising from guarantees be recognized when guarantees are granted, particularly regarding those guarantees for which it is possible to make reasonable estimates of expected future claims?

38. Transaction concept

38.a Change of economic ownership (as term)

The principle of ownership is central to the determination of the timing of recording of transactions in financial and non-financial assets (including transaction in goods). However, the 1993 SNA does not explicitly define ownership. Does the term “economic ownership” better reflect the underlying economic reality by reflecting risks and rewards of ownership? Should the SNA draw a distinction between legal, physical, and economic ownership?

38.b Assets, liabilities and personal effects of individuals changing residence (“migrant transfers”)

The flows of goods and changes in the financial account arising from a change in residence of individuals are treated as imputed transactions in the *Balance of Payments Manual*. These flows are offset in the capital account by capital transfers called migrants’ transfers. The 1993 SNA is not explicit on the treatment of these flows. Since no change in ownership occur, should the changes in financial claims and liabilities due to change in residence of individuals be treated as reclassification in other changes in volume account?

38.c Application of accrual principles to debt in arrears

The different statistical manuals do not use the same approach to the time of recording for scheduled debt repayments. *Balance of Payments Manual*, fifth edition, the *External Debt Guide*, and *Government Finance Statistics Manual* use the due-for-payment date basis involving imputation of transactions that the liability has been repaid and replaced by a short term debt. The 1993 SNA uses an accrual basis involving no imputation of transactions but continuing to show arrears in the same instrument until the liability is extinguished. If the accrual basis is followed, sub-headings or memorandum items for all or selected arrears might be introduced.

39. Residence

39.a Meaning of national economy

In the 1993 SNA, the concept of the national economy is discussed in terms of “economic territory of a country” for which two contradicting criteria are used: “administered by a government” and “free circulation of persons, goods and capital”. The criteria need to be clarified. Clarification is also needed between domestic and national economy.

39.b Predominant center of economic interest (as term)

With globalization, there are an increasing number of institutional units with connections to two or more economies. The concept of “predominant” center of economic interest has been put forward to address this issue.

39.c Residence of entities with little or no physical presence

For enterprises and other entities with little or no physical presence, the criteria of production and location, that are used in the 1993 SNA to help determine residence, are not very relevant. Should the jurisdiction that allows the creation of and regulates the entity be considered as the determining the entity’s predominant centre of interest?

39.d Non-permanent workers

The number of non-permanent workers with connections to two or more territories has grown substantially in recent years. Would it be useful to prepare supplementary presentations for countries where the number of non-permanent resident persons is significant, bringing together relevant components of contract services, compensation of employees, workers’ remittances and migrants’ transfers with the numbers of short-term non-resident workers? Can the residence concept be more closely harmonized with demographic, tourism, and migration statistics and any remaining differences spelt out?

40. Goods for Processing

The 1993 SNA and the *Balance of Payments Manual* treat the goods sent abroad for processing differently. The 1993 SNA only records gross flows in the case of substantial processing (reclassification of the good at three-digit CPC). The *Balance of Payments Manual*, as a practical matter, suggests a convention that all processing be assumed substantial and therefore gross flows are recorded. Can a distinction be made between the different levels of processing? Further, the position is that when goods are sent abroad for processing, no change in ownership takes place and thus there are no actual transactions. It is mentioned that the current treatment of goods for processing in the 1993 SNA was to facilitate input-output analysis. Is this still a valid reason to record goods for processing on a gross basis or does the advent of globalization and the increasing amount of goods processed abroad suggest a change in practice would be appropriate?

41. Merchanting

Merchanting is defined in the *Balance of Payments Manual* as the purchase of a good by a resident (of the compiling economy) from a nonresident and the subsequent resale of the good to another nonresident, without the good entering the merchant's economy. The SNA does not cover the topic. The existing definition of merchanting may capture activity that is part of the production process in an increasingly globalized and inter-connected world, which is not the intent behind the definition of merchanting activity. Therefore, there is a need for a clear and precise definition of merchanting; arising out of this there needs to be clear guidance on whether merchanting (when redefined) should be recorded on a net or a gross basis and under goods or services.

42. Retained earnings of mutual funds, insurance companies, and pension funds

In the 1993 SNA, retained earnings of an entity are generally treated as the income and saving of the entity, rather than the owner. However, exceptions are made for life insurance companies, pension funds and foreign direct investment companies, where there is an imputed outflow to the policyholders, beneficiaries, or owners (respectively), with an equal financial account inflow from them. The *ESA 95* introduces a similar treatment for mutual funds by imputing a distribution of retained earnings to the investors and a subsequent reinvestment in the fund. Should the SNA follow this treatment to have a more consistent treatment of various forms of collective investment schemes?

43. Interest and related issues

43.a Treatment of index-linked debt instruments

The guidance in the 1993 SNA about how transactions relating to index-linked debt instruments is not precise. When the principal is indexed, the redemption value is not known until maturity; as a result, interest flows are not known before maturity. What should be recorded for interest and principal repayment in the period before maturity? Further, for some instruments, the indexation may lead to valuation gains. How should these be recorded?

43.b Debt indexed to a foreign currency

For debt instruments with both principal and coupons indexed to a foreign currency, the currency of account is important for distinguishing transactions from holding gains and losses. These may be different from an assessment made on the basis of the currency of settlement. Does this mean that debt indexed to foreign currency should be treated in the same way as foreign currency debt, that is as if denominated in foreign currency?

43.c Interest at concessional rates

Loans with concessional interest rates could be seen as providing a transfer from lender to borrower. Should such transfers be recognized in the SNA? Although there is no clear definition of what is a concessional loan, the guidance in the *External Debt Guide* suggests

features such as an intention to convey a benefit and occurrence in a noncommercial setting (usually government-to-government). If concessional loans are not recognized in the core accounts, should the concessional amounts be considered as supplementary information where they are significant?

43.d Fees payable on securities lending and gold loans

Neither the 1993 SNA nor the *Balance of Payments Manual* discusses the issue of fees payable on securities lending and gold loans. The fee for securities lending is for putting a financial instrument at the disposal of another unit, but it does not fit with the definition of interest when the legal ownership is transferred but the economic risks and rewards of the ownership remain with the original owner. The fee payable on gold loans appears to be a payment for services as gold in this instance is non-monetary gold.

44. Financial assets classifications

Continued innovation in financial markets since the 1993 SNA was written means a review of the classification used for financial instruments is appropriate. Suggestions for change arise for most of the present categories.

Monetary gold and SDRs

- (a) Should monetary gold be treated as a financial asset rather than as a valuable?
- (b) The 1993 SNA classifies Special Drawing Rights (SDRs) as assets without corresponding liabilities arguing that IMF members do not have an unconditional liability to repay their SDR allocations. However, SDR allocations have attributes of liabilities because interest is payable on them and a country terminating IMF membership would be required to repay its obligations including any SDR allocations. Also, the IMF *Monetary and Financial Statistics Manual* recommends that the value of allocated SDRs be shown both on the assets and liabilities side of the balance sheets of central banks, which is in accordance with the IMF's SDR Department's guidance to member countries. Should SDR allocations be considered liabilities in the SNA?

Deposits and loans

- (c) The criteria to make the distinction between deposits and loans are not clear. Recent financial innovations raise questions about the continuing analytical usefulness of the distinction. A particular problem is when a position between two parties, especially financial institutions, is seen as a deposit by one party and a loan by the other. Should the SNA maintain a distinction between loans and deposits?
- (d) When and under what circumstances do loans that are traded become securities? This is important because virtually all loans are tradable and trading has increased. It also affects market valuation since securities are valued at market price in the SNA and loans at nominal values.

Securities other than shares

(e) With financial derivatives treated as a separate instrument in the 1993 SNA, it would be appropriate to introduce the term “debt securities” to replace “securities other than shares”.

Financial derivatives

(f) Should there be a distinction between different types of financial derivatives, for example between forwards and options as well as the inclusion of employee stock options (see issue 3) in this category?