

# Updating SNA 1993

*ISWGNA*

# History

- SNA 1993 ten years old
- Robust; stood test of time
- New phenomena (stay relevant)
- incremental revision too slow, fragmented
- UNSC 2003 approves consolidated review
- start 2003 - publish “SNA93 rev 1” 2008

# Issues - Criteria

- No fundamental changes
- New issues in economy
- Old issues only if new developments
- User demands
- Consistency with BoP and GFS
- Feasibility

# SNA revision process

- ISWGNA manages and coordinates
- Advisory Expert Group
- City groups, EDG, regional commissions..
- Editor, to draft text
- Project manager, day-to-day
- Funding

# Technical groups

Subjects now studied in technical groups:

- Canberra group on non-financial assets
- Electronic discussion groups (EDG)
- Regional Working Groups (EU, OECD, etc)
- Task Force on Harmonisation of Public Sector Accounts
- IMF revising BPM in parallel

# Advisory Expert Group

- Technical decisions
  - based on EDG, Canberra II etc
- 20 experts
- consensus or majority decisions
- meet about once per year
- reports sent to countries for comment.

# AEG Meetings

- Mid-February 2004
- November 2004
- November 2005
- May 2006
- 2007

# Submission of issues papers

- Issues paper *plus* summary about (one and half pages). Issues paper to include recommendations with, if possible, indications of the paragraphs of the SNA to be amended.
- Send to ISWGNA 2 months prior to meeting of the AEG
- Available on UN website prior to meetings:  
<http://unstats.un.org/unsd/nationalaccount/snarw1.htm>



# Issues for the AEG –February 2004

- Employer retirement pension schemes
- Employee stock options
- Ownership transfer costs\*
- Non-life insurance/reinsurance
- Output of (non-insurance) financial corporations
- Military assets\*
- Taxes on holding gains
- (Treatment of interest under conditions of high inflation  
– for information only)

# Possible Issues for the AEG – November 2004

- Repurchase agreements
- Originals and copies\*
- Databases – clarify\*
- Definition of economic assets – should we add a criterion of ‘reliability of measurement’?\*
- Mineral exploration – clarify\*
- Government owned assets – cost of capital services\*
- Capital input into production account\*
- Land\*
- Macroeconomic aggregates in the system\*
- Treatment of non-performing loans
- Treatment of interest under conditions of high inflation

# Possible Issues for the AEG – November 2005

- Leases and licences\*
- Borderline between rent/rental and sale\*
- Terminology and classifications\*
- BOOT schemes\*
- Purchased goodwill\*
- Trademarks, brand names and franchises\*
- Asset boundary for non-produced intangible assets\*
- Amortisation of intangible non-produced assets\*
- R&D (plus impact on patented entities)\*
- Obsolescence/depreciation\*
- Water\*
- Consumer subsidies

# Cost of ownership transfer

- Cost of ownership transfer incurred on the acquisition of an asset should be written off over the expected period of ownership
- Cost of ownership transfer on disposal should be written off over the expected period of ownership
- Terminal costs should be written off over the expected period of ownership

# Originals and copies

- The main issue is whether capitalising originals and copies leads to double counting and, if so, how to record these expenditures. Three different views have been expressed.
- A produced intangible asset is an original idea produced by R&D. It cannot be copied, but can be shared. An asset stemming from an original idea is an access device to it. Payments for the derived asset (such as a piece of software) are partly for acquisition of the access device and partly for the rental of the original. GFCF comprises the values of the original idea and the access device excluding the rental for the original (providing it meets the other necessary criteria).

# Originals and copies –*cont.*

- The sale of a copy is a sale of part of the original. This results in positive GFCF by the buyer of the copy and negative GFCF by the owner of the original.
- Both the creation of the original and the purchase of a copy can be GFCF. The GFCF occurs at different times, and as the copy is purchased the value of the original declines due to COFC. When estimates net of COFC for production and capital stock are used there can be no double counting, even over time. In summary, maintain the status quo.

# Databases

- The SNA currently recommends that large databases should be capitalized.
- Should all databases be capitalized?
- If not what should not be capitalized?
- Canberra II Group thinks that they should all be capitalized.

# Leases and licences

- The SNA currently recommends recording leases and other transferable contracts, except leases on machinery, as intangible non-produced assets. But it does not say exactly what the assets are.
- Canberra II is in the early stages of reviewing the treatment of, contracts, leases and licences and looking at the various options.



# Leases and licences – *cont.*

## Possible options

- Don't recognize them as assets at all?
- Current SNA, but how should they be valued?
- Treat them like financial derivatives?
- Partition them on the basis of lease rental *less* market rental?
- Partition also on basis of remaining lease payments?
- Treat as finance leases?

# Leases and licences – *cont.*

## Possible options

- Need to determine what is most appropriate for the different cases and different types of underlying asset

# BOOT Schemes

- Buy-own-operate-transfer schemes typically take the form of a private enterprise and government reaching an agreement whereby the enterprise undertakes the building of a piece of infrastructure, such as a road, operates it, getting at least part of the revenue and after a pre-determined period hands over ownership to the government.

# BOOT Schemes – *cont.*

- What is really going on?
  - The government is receiving a loan from the corporation
  - The corporation builds the infrastructure for the government
  - The loan from the corporation is repaid by allowing it to charge above-market fees for the use of the infrastructure.
- How should we record the transactions?

# Purchased goodwill and other non-produced assets

- Currently included in SNA 93
- Only recorded when an enterprise is sold
  - For unincorporated enterprises, value is equal to excess of purchase price over (recorded) net worth
  - For incorporated enterprises, value is equal to excess of purchase price over value of equity just before purchase

# Purchased goodwill and other non-produced assets – *cont.*

- No conceptual basis, simply an accounting entry
- What justifies difference of treatment between incorporated and unincorporated enterprises?
- Differences with commercial accounting standards
- Nothing is said about “negative” goodwill

# Purchased goodwill and other non-produced assets – *cont.*

- Alternative concept – Internally generated goodwill
  - Goodwill reflects the combined value of (net) assets that either go unidentified or are not properly measured
  - As such, it exists (potentially) for all enterprises, not just those that have been purchased
  - Can be calculated as the difference between the market value of an enterprise and the net value of its assets
  - In practice, for unlisted enterprises would be zero unless a sale occurs

## Other non-produced assets – *cont.*

- What should be recorded in this category?
  - Presumably, things such as brand names, trademarks, mastheads, franchise formulas
- Are these assets really non-produced?
  - But there could be significant practical problems in determining what expenditures should be capitalised
- How and when should the assets be recognised in the balance sheets?



# Research & Development

- Members of Canberra II Group have been trying develop means of using data collected as per the Frascati Manual guidelines to derive estimates of R&D capital formation consistent with the SNA definition of fixed assets.
- Research is also being undertaken into difficult boundary areas (e.g. software), determining asset lives, and the derivation of constant price estimates.

# Research & Development – *cont.*

- Canberra II Group agrees that:
  - R&D should be capitalized
  - All R&D covered by the Frascati manual definition (including basic research) should be included in the asset boundary
  - In general, R&D assets should have finite lives
  - More work should be undertaken in order to test these recommendations and address remaining measurement challenges