Implementation of the System of National Accounts 2008 in South Africa

ECONOMIC ANALYSIS AND RESEARCH

Discussion document: D0409
01 March 2012

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Implementation of the System of National Accounts 2008 in South Africa

Impact of the System of National Accounts 2008 on South Africa's gross domestic product

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Implementation of the System of National Accounts 2008 in South Africa / Statistics South Africa

Published by Statistics South Africa, Private Bag X44, Pretoria 0001

Stats SA Library Cataloguing-in-Publication (CIP) Data
Implementation of the System of National Accounts 2008 in South Africa / Statistics South Africa. Pretoria: Statistics South Africa, 2012

D0409
41pp

ISBN: 978-0-621-40707-5

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Preface

This document focuses on the major changes to future calculations of South Africa's gross domestic products (GDP) due to the implementation of the 2008 System of National Accounts (SNA). The 2008 SNA made 44 major changes to the 1993 SNA, which can be divided into five main groups, namely assets, the financial sector, globalisation and related issues, the general government and public sector, and the informal sector (Annexure 1).

Statistics South Africa (Stats SA) and the South African Reserve Bank (SARB) plan to partially implement the 2008 SNA with the next benchmarking and rebasing exercise in 2014. This document will therefore also focus on some of the possible areas in the 2008 SNA that will be implemented in 2014.

Contents

1. Introduction

This document contains the major changes between the 1993 System of National Accounts (SNA) and the 2008 SNA. It also indicates the major impacts that these changes will have on the calculation of the Gross Domestic Product. In 2003 the United Nations Statistical Commission requested that the 1993 SNA be updated to bring the national accounting framework into line with the needs of data users. The 2008 SNA is an updated version of the 1993 SNA.

The reason behind the updated version is that, in many countries, the economic environment has involved significantly since the early 1990's when the 1993 SNA was developed and, in addition, methodological research over the past decade or so has resulted in improved methods of measuring some of the more difficult components of the accounts.

The national accounts provide a systematic statistical framework for summarising and analysing economic events, and the wealth of an economy and its components. Principal accounts record production, consumption, capital formation, the distribution of income to the factors of production (labour and capital) and the use of income.

Furthermore, the United Nation Commission mandated that the 2008 SNA should not contain comprehensive changes, while consistency with related manuals, such as those of the balance of payments, on government finance statistics and on monetary and financial statistics was an important consideration in the update.

2. Background

United Nations Statistical Division (UNSD) overview document recommends that the SNA changes will mainly deal with economic issues that arose or became more prominent since the introduction of the 1993 SNA, inconsistencies in the SNA needs to be removed, and the SNA needs to be harmonised with other manuals in the field of macroeconomic statistics. They also advised to proceed with the research agenda left at the end of the process leading up to the 1993 SNA. Although the recommendations cut across almost all parts of the SNA, these changes are mainly concentrated in parts that deal with non-financial assets, financial services and financial instruments, the rest of the world (balance of payments), government and the public sector. In other words, the majority of the recommendations relate to units and transactions that represent characteristics of an increasingly globalised economy, innovation in financial instruments and stronger interest in the sources of wealth and debt of the private and public sectors.

Some of the recommendations affect major aggregates of the System, such as GDP and saving, as would be expected of an update intended to capture the evolving aspects of production, consumption and accumulation. Many other recommendations do not affect the major aggregates, but reflect a range of other elements, including elaborations and clarifications of definitions and classifications.

Some of the changes in the 2008 SNA are the new recording of pension schemes, cost of capital services, research and experimental development, military expenditure, and goods for processing. Some of these changes can have a significant impact on the GDP.

Furthermore, the 2008 SNA was prepared under the working group known as the Inter-Secretariat Working Group on National Accounts (ISWGNA) which consist of five organisations, namely the Statistical Office of the European Committee (Eurostat), the International Monetary fund (IMF), the United Nations Statistical Division and regional commissions of the United Nations, the Secretariat, and the World Bank. The 2008 SNA is published jointly by these five organisations[1].

The 2008 SNA consists of 44 major changes, although not all will impact the GDP by production approach. This discussion document will focus on the following six changes that will have an impact and can bring about change for the next benchmarking in 2014, namely:

- Capitalisation of research and development;
- Treatment of employment stock options as compensation of employees;
- Capitalisation of expenditure on weapon systems;

[1] System of National Accounts 2008, United Nations, 2009 by European Communities, OECD, UN and World Bank

- Refined method for calculating financial intermediation services indirectly (FSIM);
- Valuation of output for own final use by households and corporations to include a return capital; and
- Changes in recording of pension entitlements.

3. Proposed changes to South African National Accounts due to the 2008 System of National Accounts

3.1 Capitalisation of research and development

Research and development (R&D) is treated as capital formation except in cases where it is clear that the activity does not involve any economic benefit for the producers, in this case research and development should be treated as intermediate consumption.

Research and development undertakings by market producers on their own behalf, should be valued at estimated basic prices as if it would be contracted out. However, in practice it is likely to be valued on the basis of the total production costs including the cost of fixed assets used in the production. Research and development by specialised commercial laboratories or institutions is valued on invoices prices, whereas research and development undertaken by government, universities, and non-profit research institutions is seen as non-market production and is valued on the basis of the total cost incurred.

The accounts that will be changed in National Accounts will be the production account and capital account. In the production account, intermediate consumption will be decreased with the research and development amount, while operating surplus and gross fixed capital formation will increase with the same amount. This will be equally reflected in the capital account where gross fixed capital formation will increase. Research and development will have a direct impact on the level of GDP, as value added will increase with the amount of research and development.

R&D will have an impact on both the production and expenditure approaches that are compiled by Stats SA and SARB respectively.

In some research of the countries that reflected research and development as capital formation, Statistics Norway indicated a 1,2% increase in the level of GDP, and the change in volume growth of GDP was negligible. No change in net national income was reflected, whereas the formation of fixed capital increased by 6,2%. Furthermore, studies showed that in OECD (Organisation for Economic Cooperation and Development) countries, the impact on GDP depends on the relative size of R&D production to GDP, if and when it is implemented. This ratio varies considerably between OECD countries. The ratio varies from about 0,5% for Greece to a little under 4% for Sweden – with the OECD average being 2,3%. The ratios do not change very quickly over time, which suggests that the capitalisation of GDP will have little impact on GDP growth rates[2].

3.2 Treatment of employee stock options as compensation of employees

Employee stock options are a common tool used by companies to motivate their employees. The 2008 SNA explicitly includes the value of the stock options as a form of compensation of employees in kind. This will reflect an increase in compensation of employees and a decrease in operating surplus of corporations.

The only account that will be affected is the generation of income account where the compensation of employees and gross operating surplus will increase and decrease respectively. No impact on value added is reflected but will reflect a change in trends between compensation and operating surplus. Employee stock option questions have already been included in Stats SA surveys.

3.3 Capitalisation of expenditure on weapon systems

The 1993 SNA treated military expenditures as gross fixed capital formation on fixed assets of a kind that could be used for civilian purposes of production. Military weapons, vehicles and equipment of which the sole purpose was to launch or deliver such weapons, were not treated as gross fixed capital formation but as intermediate consumption. It divides military acquisitions into offensive weapons and their means of delivery, and all other. The former are excluded from gross capital formation regardless of their life span.

[2] The Statistics Brief, the Statistics Directorate of the OECD, by Enrico Giovannini

This treatment implies that defence is not a service provided by government using military hardware as associated assets. Furthermore, weapons that have already been cost 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.

The 2008 SNA recommends that all expenditure by the military that meets the definition of being used in production over a period in excess of one year is to be treated as capital formation, regardless of the nature of the expenditure or the purpose intended for it. All equipment is to be treated as gross fixed capital formation except for consumables, which is treated as inventories. Separate items will identify weapons systems within gross fixed capital formation and military inventories apart from other inventories.

Expenditures on weapon systems are to be reclassified from government final consumption expenditure to government gross fixed capital formation. This will increase the fixed assets (capital stock), which will results in an increase of consumption of gross fixed capital for the government sector. This additional consumption of fixed capital will increases the GDP or gross national income (GNI). Furthermore, consumables like ammunition are now treated as inventories. The extension of the asset boundary therefore also affects the changes in inventories. The changes will only affect the use side of the goods and a services account, no change in output is reflected.

In a research of Statistics Netherlands regarding the change in inventories, they expected that the outcome will be on average (close to) zero. A positive change in inventories in one year will often lead to a negative change in inventories in the next. They also expected that military inventories will be more or less a fixed percentage of the intermediate consumption, with an increase of defence expenditure; this will reflects a small increase in inventories. They assume that the changes in military inventories are between -15 and 15 percent of the (average) consumption of military goods that would lead to a change in military inventories between 10 and 10 million euro.

For OECD countries, the change to the treatment of weapon systems will boost the GDP level by an amount equal to the consumption of fixed capital of weapon systems, and this will vary considerably between countries. The United States has already adopted the change, and this adds about 0,5% to their GDP[3].

Further discussions with stakeholders in this regards are necessary to determine the impact on the GDP. This change will have an impact on the compilation of supply and use tables (SUTs), where the adjustment will reflect a change in the changes in inventories and gross fixed capital formation.

3.4 Refined method for calculating financial intermediation services indirectly measured

The method recommended in the 2008 SNA for the calculation of financial intermediation services indirectly measured (FISIM) implies several changes from that in the 1993 SNA. For example, it recommends that FISIM only applies to loans and deposits provided by/deposits with financial institutions, and that for financial intermediaries all loans and deposits are included, not only intermediated funds.

The 2008 SNA and Balance of Payment and International Investment Position Manual, Sixth Edition (BPM6) FISIM comprises financial service output for which producers do not explicitly charge. Instead, they levy an implicit charge in the spread between interest rates receivable on financial assets and interest rates payable on financial liabilities. The 2008 SNA and BPM6 recognise FISIM produced only by financial corporations and only on their loan assets and deposit liabilities.

On loans, FISIM is the difference between interest receivable and the interest cost of funds calculated at a reference rate on the loan balance. On deposits, FISIM is the difference between interest payable at the reference rate on the deposit balance and interest actually payable to depositors. Depositors receive both the interest payable and financial services for maintaining a balance with a deposit-taking financial corporation. The value of the financial services depositors receive is an implicit rather than explicit charge. The reference rate is described in both the BPM6 and the 2008 SNA as a rate that contains no service element and reflects the risk and maturity structure of deposits and loans.

[3] The Statistics Brief, the Statistics Directorate of the OECD, by Enrico Giovannini

The focus of the BPM6 is on FISIM as a component of exported and imported services, also appearing in the 2008 SNA external goods and services account. FISIM exports comprise the indirectly measured financial services sold on the loan assets and deposit liabilities of resident financial corporations for which the counterparty is a non-resident unit. FISIM imports comprise indirectly measured financial services purchased by resident units from all institutional sectors on their loan liabilities and deposit assets with non-resident financial corporations.

The calculation of FISIM according to the 2008 SNA is as follows:
The 2008 SNA calculates the output of FISIM on loans (VL) and deposits (Vd) only, using a reference rate (rr).

- Assuming that these loans and deposits attract interest rates of rL and rd respectively, the output of FISIM should be calculated according to the formula

$$(rL - rr)\ VL + (rr - rd)\ Vd.$$

Whereas rL = Interest rates on loans (average)
rr = Reference rate
VL = Stock of loans
rd = Interest rates on deposits (average)
Vd = Stock of deposits

- The 1993 SNA calculated FISIM as the difference between property income receivable and interest payable.

Further discussion between Stats SA and SARB is necessary to determine the impact on GDP calculations and the compilations of SUT.

3.5 Valuation of output for own final use by households and corporations to include a return to capital

The 2008 SNA recommends that when estimating the value of the output of goods and services produced by households and corporations for own final use, it is appropriate to include a return to capital as part of the sum of costs when this approach is used for estimating output in the absence of comparable market prices. However, no return to capital should be included when production for own final use is undertaken by non-market producers.

The 1993 SNA did not include the return to capital in estimating the output of goods and services produced for own final use by households and corporations.

Output for own and final use should be valued at basic prices at which goods and services should be sold if offered for sale on the market. If a market price can-not be obtained, the value of the output of the goods or services produced for own final use is deemed to be equal to the sum of their cost of production.

To calculate return to capital the total stock of assets is needed. The output valued increases by an imputed value of return of capital. GDP increases by the same amount of imputed value.

Further discussion between Stats SA and SARB in this regard is necessary.

3.6 Changes in recording of pension entitlements

The 2008 SNA recognises that pension promises are contractual engagements, in that they are expected or likely to be enforceable and therefore, they should be recognised as household assets, irrespective of the fact that segregated schemes' assets exist or not, and the employer may have recorded an associated liability entry in the balance sheet or not. Furthermore, the 2008 SNA recommends recording of the liabilities of employers' pension schemes, regardless of whether funding to meet them exists or not.

For pensions provided by government via social security, the full range of information is required for a comprehensive analysis of pensions to be provided in a supplementary table that shows the liabilities and associated flows of all private and government pension schemes, whether funded or unfunded, and including social security.

Countries have some flexibility to deviate from this rule in the set of standard tables. This is because the division between which pensions are provided by social security and other employment-related schemes, varies considerably from country to country.

According to a study on OECD countries, it is currently not possible to quantify the impact on the accounts regarding this change. The impact is likely to vary considerably between countries and depends on the composition of the different types of schemes within a country, the current treatment and the extent to which the recommendations are implemented in the core accounts in respect of government employer schemes. Compensation of employees and household saving could change (probably upwards) and gross operating surplus could change (probably downwards). If government liabilities are recognised for unfunded employer- defined benefit schemes for government employees, then the ratio of the SNA public debt to GDP could rise substantially[4]. The impact on GDP and the SNA measure of public deficit will depend on whether the actual pension payments currently included in compensation of government employees are greater or less than the imputed contributions to the pension fund plus the imputed interest on previously unpaid contributions that will replace them when the change is implemented. Some countries, such as Australia and Canada, have already made this latter change.

With the regard to the above, the impact on the GDP will be discussed with SARB to determine the impact on the GDP.

4. Way forward

The proposed partial implementation of 2008 SNA will be included in the next national accounts benchmark and rebasing project, scheduled for completion in November 2014. It

[4] The Statistics Brief, the Statistics Directorate of the OECD, by Enrico Giovannini

is dependant on the continued successful relationship between Stats SA, SARB and data providers. All changes in questionnaires of surveys such as Large Sample Surveys, Annual Financial Statistical Surveys and Quarterly Financial Statistical Surveys are implemented to be inline with the 2008 SNA. The users of GDP data will be informed of the changes of the 2008 SNA and the impact on the calculations of GDP.

5. References

1. System of National Accounts 2008, of 2009 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.
2. The Statistics Brief, the Statistics Directorate of the OECD, by Enrico Giovannini.

Annexure 1: Comparisons between the 1993 System of National Accounts and the 2008 System of National Accounts

A. Specifications of statistical units and revisions in the sectoring

1. Producer unit undertaking ancillary activities to be recognised as a separate establishment in certain cases *[2008 SNA, Chapter 5, paragraphs 5.41 to 5.42]*[5]

- Producer unit undertaking purely ancillary activities to be recognised as separate establishment if:
  - Statistically observable, in that separate accounts for the production it undertakes are readily available; or
  - If it is located in a geographically different location from the establishments it serves.
- The ancillary establishment is classified according to its own principal activity.
- The value of output should be derived on a sum of costs basis, including the costs of the capital used by the unit.
- The 1993 SNA treated a producer unit undertaking purely ancillary activities always as an integral part of the establishment it served.

2. Artificial subsidiaries *[2008 SNA, Chapter 4, paragraphs 4.62 to 4.64]*[6]

- Ancillary corporations of the 1993 SNA are named as artificial subsidiaries in the 2008 SNA.
- Artificial subsidiaries are subsidiary corporations wholly owned by the parent corporation and created to provide services to the parent corporation, or other corporations in the same group, in order to avoid taxes, to minimise liabilities in the

[5] System of National Accounts 2008, of 2009, p91 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

[6] System of National Accounts 2008, of 2009, p69 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

event of bankruptcy, or to secure other technical advantages under the tax or corporation legislation in force in a particular country.

- Not regarded as institutional unit unless resident in an economy different from that of its parent.

3. Branch of a non-resident unit recognised as an institutional *unit* *[2008 SNA, Chapter 4, paragraph 4.47]*[7]

- The 1993 SNA stated that an unincorporated enterprise owned by a non-resident institutional unit should be treated as a residential unit in the country where it is located.
- This unit is a branch in the SNA 2008 and treated as an institutional unit.

4. Multi-territory enterprises *[2008 SNA, Chapter 4, paragraph 4.13]*[8]

- Residence of multi-territory enterprises clarified.
- Multi-territory enterprises operate a seamless operation over more than one economic territory.
- Such enterprises are typically involved in cross-border activities and include shipping lines; airlines; hydroelectric schemes on border rivers; pipelines; bridges; tunnels and undersea cables.
- In case it is not possible to identify a parent or separate branches, it is recommended to prorate the total operations of a multi-territory enterprise by the individual economic territories in which it operates.

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[7] System of National Accounts 2008, of 2009, p67 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

[8] System of National Accounts 2008, of 2009, p62 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

5. **Special purpose entities** *[2008 SNA, Chapter 4, paragraphs 4.55 to 4.58; Chapter 22, paragraphs 22.51 to 22.54]*[9]

- 2008 SNA provides guidance on the treatment of units with no employees and no non-financial assets known variously as special purpose entities (SPEs) or special purpose vehicles:

  There is no common definition of SPEs, but some of its characteristics are:

  - it has little physical presence;
  - is always related to another corporation, often as a subsidiary; and
  - it is often resident in a territory other than the territory of residence of its parent.
- Such a unit is treated as an institutional unit and is allocated to sector and industry according to its principal activity with some exceptions.
- The 1993 SNA did not give explicit guidance for treatment of such units.

6. **Holding company** *[2008 SNA, Chapter 4, paragraph 4.54]*[10]

- Holding company allocated to the financial corporations sector, as described in section K class 6420 of the ISIC Rev. 4, holds the assets of subsidiary corporations but does not undertake any management activities. Such a unit therefore, produces only the financial service.
- In the 1993 SNA, the holding companies were recommended to be assigned to the institutional sector in which the main activity of the group of subsidiaries is concentrated.

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[9] System of National Accounts 2008, of 2009, p69 & p440 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

[10] System of National Accounts 2008, of 2009, p68 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

7. **Head office** *[2008 SNA, Chapter 4, paragraph 4.53]*[11]

- Head office to be allocated to the institutional sector preponderant to activity of its subsidiaries.
- The activities of a head office, as defined in section M class 7010 of the ISIC Rev. 4, include:
  - Overseeing and managing of other units of enterprise;
  - Undertaking the strategic or organisational planning and decision-making role of the enterprise;
  - Exercising operational control and manage the day-to-day operations of their related units; and
  - Such a unit therefore, produces the non-financial or financial services depending on the nature of production of its subsidiaries.
- The 2008 SNA therefore, recommends that the head office should be allocated to the-
  - non-financial corporations sector; unless
  - all or most of its subsidiaries are financial corporations, in which case it is treated by convention as a financial auxiliary in the financial corporations sector.
- 1993 SNA did not give explicit guidance for treatment of head offices.

8. **Sub-sector for non-profit institutions introduced** *[2008 SNA, Chapter 4, paragraphs 4.35. 4.95, 4.103 and 4.128]*[12]

- The 2008 SNA assigns Non-profit institutions (NPIs) to different institutional sectors, regardless of motivation, tax status, type of employee or the activity they are engaged in.

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[11] System of National Accounts 2008, of 2009, p68 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

[12] System of National Accounts 2008, of 2009, p66, p74& p80 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

9. **Financial services** *[2008 SNA, Chapter 4, paragraph 4.98; Chapter 6, paragraph 6.158]*[13]

- Definition of financial services enlarged to give due weights to the increase in financial services other than the financial intermediation, specifically financial risk management and liquidity transformation.

10. **Sub-sectoring of the financial corporation sector revised to reflect new developments in financial services, markets and instrument** *[2008 SNA, Chapter 4, paragraph 4.98; Chapter 6, paragraph 6.158]*[14]

- Central bank
- Deposit-taking corporations, except the central bank
- Money market funds (MMFs)
- Non-MMF investment funds
- Other financial intermediaries, except insurance corporations and pension funds (ICPFs)
- Financial auxiliaries
- Captive financial institutions and money lenders
- Insurance corporations (ICs) and
- Pension funds (PFs)

B. Specifications of the scope of transactions, including the production boundary

1. **Research and Development** *[2008 SNA, Chapter 6, paragraph 6.207]*[15]

- Output of Research and Development (R&D) is not treated as intermediate consumption.

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[13] System of National Accounts 2008, of 2009, p75 & p114 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

[14] System of National Accounts 2008, of 2009, p75 &p114 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

[15] System of National Accounts 2008, of 2009, p119 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

- A separate establishment should be distinguished for it when possible.
- The 2008 SNA recommends that the output of the R&D should be valued at-
  - market price if purchased (outsourced); or
  - the sum of total production costs plus an appropriate mark-up if undertaken on own account.
- The 1993 SNA by convention treated the output of R&D as intermediate consumption.

2. Method for calculating financial intermediation services indirectly measured is refined *[2008 SNA, Chapter 6, paragraphs 6.163 to 6.165]*[16]

- By convention the 2008 SNA recommends that-
  - financial intermediation services indirectly measured (FISIM) applies only to loans and deposits; and
  - only when those loans and deposits are provided by, or deposited with financial institutions.
- The 2008 SNA calculates the output of FISIM on loans (VL) and deposits (Vd) only, using a reference rate (rr).
- Assuming that these loans and deposits attract interest rates of rL and rd respectively, the output of FISIM should be calculated according to the formula: (rL - rr) VL + (rr - rd) Vd.
- The 1993 SNA calculated FISIM as the difference between property income receivable and interest payable.

3. Output of central bank clarified *[2008 SNA, Chapter 6, paragraphs 6.151 to 6.156; Chapter 7, paragraphs 7.122 to 7.126]*[17]

- Services produced by the central bank are identified in three broad groups,
  - financial intermediation;
  - monetary policy services; and

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[16] System of National Accounts 2008, of 2009, p115 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

[17] System of National Accounts 2008, of 2009, p152 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

– Supervisory services overseeing financial corporations.

- Separate establishments should be identified for units of the central bank undertaking production of these services. Financial intermediation services represent market production.
- Monetary policy services represent non-market production.
- Borderline cases, such as supervisory services may be treated as market or non-market services depending on whether explicit fees are charged that are sufficient to cover the costs of providing such services.

4. **Non-life insurance services** *[2008 SNA, Chapter 6, paragraphs 6.184 to 6.190 and 6.199; Chapter 17, paragraphs 17.13 to 17.42]*[18]

- Catastrophic events generate massive claims on non-life insurance companies.
- In such cases the output of the insurance activity estimated using the basic algorithm of the 1993 SNA anchored on the balance of premiums and claims could be extremely volatile (even negative).
- The 2008 SNA therefore recommends that the output of the non-life insurance activity should be calculated using the adjusted claims and adjusted premiums supplements.
  - Output = Actual premiums earned + Adjusted premium supplements - Adjusted claims incurred.

5. **Reinsurance treated same as direct insurance** *[2008 SNA, Chapter 6, paragraph 6.200; Chapter 17, paragraphs 17.56 to 17.65]*[19]

- Reinsurance should be treated in the same way as insurance.

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[18] System of National Accounts 2008, of 2009, p117 & p342 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

[19] System of National Accounts 2008, of 2009, p119 & p348 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

6. Valuation of output for own final use by households and corporations *[2008 SNA, Chapter 6, paragraph 6.125]*[20]

- Return to capital to be included as part of the sum of costs for valuation of the output of goods and services produced for own final use by households and corporations.
- The 1993 SNA was not explicit in including the return to capital in estimating the output of goods and services produced for own final use by households and corporations.

C. Further specification of the concepts of assets, capital formation and consumption of fixed assets

1. Change of economic ownership *[2008 SNA, Chapter 3, paragraphs 3.21, 3.26, 3.169; Chapter 10, paragraph 10.5]*[21]

- The 2008 SNA gives guidance to distinguish legal ownership and economic ownership and recommends that assets be recorded on the balance sheet of the economic rather than the legal owner.

2. Asset boundary extended to include Research and Development *[2008 SNA, Chapter 10, paragraphs 10.103 to 10.105]*[22]

- The output of the Research and Development (R&D) is capitalised as 'intellectual property products'.
  - Except in cases where it is clear that the activity does not entail any economic benefit to its producer (and hence owner), in which case it is treated as intermediate consumption.
- Patented entities of the 1993 SNA asset category are no longer separately identified and are subsumed into R&D assets.

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[20] System of National Accounts 2008, of 2009, p110 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

[21] System of National Accounts 2008, of 2009, p41, p56 &p206 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

[22] System of National Accounts 2008, of 2009, p206 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

- Treatment of R&D giving rise to produced assets has removed the 1993 SNA inconsistency of treating the patented entities as non-produced asset giving rise to property income.

3. Revised classification of assets introduced *[2008 SNA, Chapter 3, paragraphs 3.5, 3.3, to 3.31, 3.37 to 3.36; Chapter 10, paragraph 10.8]*[23]

3.1 Assets classification Produced assets *[2008 SNA, Chapter 10, paragraphs 10.10 to 10.13]; further references [2008 SNA, Chapter 3, paragraphs 3.5, 3.30 to 3.31, 3.37 to 3.39; Chapter 10, paragraph 10.8]*[24]

- Within buildings and structures, a category has been added for land improvements. This replaces the 1993 SNA term 'major improvements to non-produced non-financial assets'. The costs of ownership transfer on all land are to be included with land improvements.
- The information, computer and telecommunications (ICT) equipment has been included as a new category under machinery and equipment.
- Weapon systems are recognised as produced assets and classified separately.
- The term 'intangible fixed assets' has been renamed as 'intellectual property products'. The word 'products' is included to make clear that it does not include third party rights which are non-produced assets in the SNA.
- R&D products are included within intellectual property products.
- The item 'mineral exploration' has been renamed to 'mineral exploration and evaluation' to emphasise that the coverage conforms to the international accounting standards.
- Computer software has been modified to include databases.
- The term 'other intellectual property products' replaces 'other intangible fixed assets'.
- The only change to inventories is to show military inventories separately.

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[23] System of National Accounts 2008, of 2009, p42& p195 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

[24] System of National Accounts 2008, of 2009, p42 & p195 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

3.2. **Assets classification non-produced assets** *[2008 SNA, Chapter 10, paragraphs 10.14 to 10.17]; further references [2008 SNA, Chapter 3, paragraphs 3.5, 3.30 to 3.31, 3.37 to 3.39; Chapter 10, paragraph 10.8]*[25]

- The 'tangible non-produced assets' of the 1993 SNA are renamed as 'natural resources'.
- Other natural resources such as the radio spectrum have been added.
- The 'intangible non-produced assets' has been split into two sub-categories, namely 'contracts, leases and licences' and 'goodwill and marketing assets'.
- Contracts, leases and licences has been split into four sub-categories;
  - marketable operating leases.
  - permissions to use natural resources.
  - permissions to undertake specific activities.
  - entitlement to future goods and services on an exclusive basis.

4. **Extension of the assets boundary and government gross capital formation to include expenditure on weapon systems** *[2008 SNA, Chapter 10, paragraphs 10.87 and 10.144]*[26]

- Military weapon systems are seen to be used continuously in the production of defence services, even if their peacetime use is simply to provide deterrence.
- The 2008 SNA, therefore, recommends that military weapon systems should be classified as fixed assets:
  - Single-use items, such as ammunition, missiles, rockets, bombs, etc., delivered by weapons or weapons systems are treated as military inventories.
- The 1993 SNA treated as gross fixed capital formation all expenditures by the military on fixed assets of a kind that could be used for civilian purposes of production:

[25] System of National Accounts 2008, of 2009, p42 & p195 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

[26] System of National Accounts 2008, of 2009, p204 & p210 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

– Military weapons, and vehicles and equipment whose sole purpose was to launch or deliver such weapons, were not treated as gross fixed capital formation, but as intermediate consumption.

5. **Computer software is modified to include database** *[2008 SNA, Chapter 10, paragraphs 10.87 and 10.144]*[27]

- Implicit guidance is given in the SNA 2008 for valuation of the computer software and database purchased from the market or developed in-house.
- Computer software and database purchase from the market should be valued at purchasers prices.
- Those that are developed in-house should be valued at their estimated basic price or the cost of production.

6. **Originals and copies recognized as distinct products** *[2008 SNA, Chapter 10, paragraphs 10.100 to 10.101]*[28]

- SNA recommends if a copy is sold outright and is expected to be used in production for more than a year that it should be treated as fixed assets.
- A copy made available under a license to use should be treated as fixed assets if it will be used in production for a period in excess of one year and the license assumes all the risks and rewards of ownership.

7. **The concept of capital services introduced** *[2008 SNA, Chapter 20]*[29]

- Capital services for assets used in market production were implicitly included in the SNA 93, but were not separately identified.

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[27] System of National Accounts 2008, of 2009, p204 & p210 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

[28] System of National Accounts 2008, of 2009, p206 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

[29] System of National Accounts 2008, of 2009, p415-p426 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

- Chapter 20 is added in SNA 2008 to explain the role of capital services and their appearance in the accounts.

8. **Treatment of cost of ownership transfer elaborated** *[2008 SNA, Chapter 20, paragraphs 10.48 to 10.52, paragraph 10.97 and paragraphs 10.158 to 10.162]*[30]

- Like the 1993 SNA, the 2008 SNA continues to treat the costs of ownership transfer (COT) as fixed capital formation.
- COT on acquisition of an asset should be written off over the period the asset is expected to be held by the purchaser
  - 1993 SNA recommended writing off COT over the whole life of the asset
- COT on the disposal of an asset should also be written off over the period the asset is held, but recorded when they are actually incurred.
- Recognising the difficulty in implementation of this recommendation due to lack of adequate data, the 2008 SNA recommends that these costs should still be recorded as gross fixed capital formation, but written off as consumption of fixed capital in the year of acquisition.

9. **Minerals exploration and evaluation** *[2008 SNA, Chapter 10, paragraphs 10.106 to 10.108]*[31]

- The name has been changed form ‘minerals exploration’ to ‘minerals exploration and evaluation’.
- It should be valued at market prices if purchased, or at the sum of costs plus appropriate mark-up if undertaken on own account.

[30] System of National Accounts 2008, of 2009, p200, p205 & p211 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

[31] System of National Accounts 2008, of 2009, p206 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

- Payment by extractor to the owner of the mineral resources corresponding to a share of the resource rent should be shown as property income, even if they are described as taxes and treated as such in government own accounts.

10. Land improvements *[2008 SNA, Chapter 10, paragraphs 10.79 to 10.81]*[32]

- Land improvements continue to be treated as gross fixed capital formation.
- The 2008 SNA recommends treating land improvements as a category of fixed assets distinct from the non-produced land asset, as it existed before improvement.
- In cases where it is not possible to separate the value of the land before improvement and the value of those improvements, the land should be allocated to the category that represents the greater part of the value.
- The costs of ownership transfer on all land are to be included in the land improvements.
- The 1993 SNA recorded improvements to land as gross fixed capital formation, but in the balance sheet such improvements were included with land itself.

11. Goodwill and marketing assets *[2008 SNA, Chapter 10, paragraphs 10.196 to 10.199]*[33]

- 'Purchase of goodwill' is renamed toe 'purchased goodwill and marketing assets'.

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[32] System of National Accounts 2008, of 2009, p204 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

[33] System of National Accounts 2008, of 2009, p216 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

12. **Water resource are treated as assets in some cases** *[2008 SNA, Chapter 10, paragraph 10.184]*[34]

- Definition is extended to include potential rivers, lakes, artificial reservoirs and other surface catchments in addition to aquifers and other groundwater resources.

13. **Consumption of fixed capital to be measured at the average prices of the period with respect to a constant-quality price index of the asset concern** *[2008 SNA, Chapter 10, paragraph 10.156]*[35]

- The 1993 SNA did not give guidance on how to measure the consumption of fixed capital, and therefore the SNA 2008 recommend that it should be measure at the average prices of the period with respect to a constant-quality price index of the asset concern.

14. **Definition of cultivated biological resources made symmetric to uncultivated resources** *[2008 SNA, Chapter 10, paragraph 10.88]*[36]

- The definition has been clarified making it specific that their natural growth and regeneration are treated as production only in cases where these are under the direct control, responsibility and management of institutional units.

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[34] System of National Accounts 2008, of 2009, p214 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

[35] System of National Accounts 2008, of 2009, p211 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

[36] System of National Accounts 2008, of 2009, p205 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

15. **Intellectual property products introduced** *[2008 SNA, Chapter 10, paragraph 10.98]*[37]

- The definition changed to 'intellectual property' products and a split has been made in research and development, mineral exploration and evaluation, computer software and database, entertainment, literary or artistic originals, and other intellectual property products.

16. **Concepts of resource lease for natural resources introduced** *[2008 SNA, Chapter 7, paragraph 7.109]*[38]

- In the SNA natural resources are effectively treated as having an infinite life as far as income generation is concern. A source lease may apply to any natural resource recognised as an asset.

17. **Changes in the items appearing in the other changes in the volume of assets account introduced** *[2008 SNA, Chapter 12]*[39]

- The other changes in volumes of assets show changes in the assets/liabilities in seven main categories and some subcategories as follow
- Economic appearance of assets
- Economic disappearance of non-produced assets
- Catastrophic losses
- Uncompensated seizures
- Other changes in volumes

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[37] System of National Accounts 2008, of 2009, p205 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

[38] System of National Accounts 2008, of 2009, p150by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

[39] System of National Accounts 2008, of 2009, p237 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

- Changes in classifications
- Nominal holding gains and losses

D. Further refinement of the treatment and definition of financial instruments and assets

1. Purchase of securities repurchase agreement clarified *[2008 SNA, Chapter 11, paragraphs 11.74 to 11.7]*[40]

- The 2008 SNA continue to treat a repo as a collateralized loan and recognises the possibility of on-selling of securities that have been repoed. In the case of on-selling of repoed security, a negative asset should be recorded for the lender to avoid double counting.

2. Treatment of employee's stock option *[2008 SNA, chapter 11, paragraph 11.124; Chapter 17, paragraphs 17.384 to 17.398]*[41]

Stock options

- Employer giving employee an option to buy stocks (shares) at some future date at a given price (strike/exercise price), subject to certain conditions (employee is still on the enterprise pay roll).
- Employee may not exercise the option when:
  - Share price is now lower than his option price
  - The employee is no longer in the employment of the company
- The 'grant date' is when the option is provided, the 'vesting date' is the earliest date when the option can be exercised (or lapses)

[40] System of National Accounts 2008, of 2009, p229 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

[41] System of National Accounts 2008, of 2009, p393 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank.

- Valuation of the stock option may estimate as the difference between the market price and the stock price at vesting date or using a stock option pricing model.

3. **Treatment of non-performing loans elaborated** *[2008 SNA, Chapter 11, paragraph 11.129, Chapter 13, paragraphs 13.66 to 13.68]*[42]

- The definition is elaborated to a non-performing loan as a loan which payments of interest or principal are past due by 90 days or more, or interest payments equal to 90 days or more have been capitalised, refinanced, or delayed by agreement, or payments less than 90 days overdue, but there are other good reasons.

4. **Treatment of loan guarantees elaborated** *[2008 SNA, Chapter 17, paragraphs 17.207 to 17.224]*[43]

- The 2008 SNA recognises three classes of loan guarantees and provides guidance for their treatment.
- Guarantees provided by means of a financial derivative, such as a credit default swap. These derivatives are actively traded on financial market and derivative presents no new features for the SNA.
- Standardised guarantees - that are issued in large numbers, usually for fairly small amounts, along identical lines such as export credit guarantees and student loan guarantees
  - In this case, although it is not possible to establish the likelihood of any one loan defaulting, it is standard practice to estimate how many out of a batch of similar loans may default. It operates on the same principle as for non-life insurance and should be treated similarly.

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[42] System of National Accounts 2008, of 2009, p229 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

[43] System of National Accounts 2008, of 2009, p372 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

- One-off guarantees consist of those where the loan or the security is so particular that it is not possible for the degree of risk associated with the loan to be estimated with any degree of accuracy.
  - In most cases, the granting of a one-off guarantee is considered a contingency and is not recorded as a financial asset/liability.

5. **Treatment of index linked debt securities elaborated** *[2008 SNA, Chapter 17, paragraphs 17.274 to 17.282]*[44]

- This is where a coupon or principal payment payable on securities such as bonds is determined by indicators agreed by the parties, but values of the indicators are not known when the agreement was made. In such a case the increase of the value of the security is to be treated as interest.

6. **Treatment of debt instruments indexed to a foreign currency revised** *[2008 SNA, Chapter 17, paragraph 17.281]*[45]

- It is recommended that debt instruments with both principles and coupon payments indexed to a foreign currency should be classified and treated as though the instrument is dominated in that foreign currency.

7. **Flexibility on valuation of unlisted equity** *[2008 SNA, Chapter 13, paragraphs 13.69 to 13.70]*[46]

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[44] System of National Accounts 2008, of 2009, p380 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

[45] System of National Accounts 2008, of 2009, p381 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

[46] System of National Accounts 2008, of 2009, p266 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

- The SNA gives guidance on valuations if not all equity is listed and quoted on stock exchange.

8. **Unallocated gold accounts treated as financial assets and liabilities** *[2008 SNA, Chapter 11, paragraph 11.45]*[47]

   - It is recommended that the unallocated gold accounts should be treated as financial assets and liabilities and classified with deposits in foreign currency if these deposits dominated in gold are held with non-residents.

9. **Definition of monitory gold and gold bullion revised** *[2008 SNA, Chapter 11, paragraphs 11.45 and 11.46]*[48]

   - Definition has been changed to align with BPM6.

10. **Liability in special drawing rights recognised special drawing rights** *[2008 SNA, Chapter 11, paragraphs 11.47 to 11.49]*[49]

   - The 2008 SNA recommends to treat special drawing rights (SDRs) issued by the IMF as being a liability of countries receiving the allocations and to record allocation and cancellation of SDRs as transactions.
   - The asset and liability aspects of SDRs should be recorded separately.
   - The 1993 SNA classified SDRs as assets without corresponding liabilities, arguing that these assets do not represent claims on the IMF collectively.

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[47] System of National Accounts 2008, of 2009, p225 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

[48] System of National Accounts 2008, of 2009, p225 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

[49] System of National Accounts 2008, of 2009, p225 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

11. Distinction made between deposits and loans *[2008 SNA, Chapter 11, paragraph 11.56]*[50]

- Continuous distinction between deposits and loans.
- With a view to avoid ambiguity between loans and deposits when both parties to the transaction are banks, it introduces a category 'inter-bank positions'.

12. Fees payable on securities lending and gold loans *[2008 SNA, Chapter 17, paragraph 17.254]*[51]

- All fees must be paid to the owners of securities used for security lending and the owners of gold used for gold loans should be recorded by convention as interest.

13. Financial asset classification *[2008 SNA, Chapter 11]*[52]

- To reflect the innovations in the financial market and also maintain its relevance in a time of rapid economic and institutional change, the financial asset classification has been changed in the 2008 SNA.
- Monetary gold and SDRs
  - Monetary gold. SDRs
- Currency and deposits
  - Currency. Transferable deposits. Other deposits
- Debt securities
  - Short-term. Long-term
- Loans
  - Short-term. Long-term

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[50] System of National Accounts 2008, of 2009, p226 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

[51] System of National Accounts 2008, of 2009, p378 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

[52] System of National Accounts 2008, of 2009, p225-p236 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

- Equity and investment fund shares
    - Equity (listed/unlisted/other shares). Investment fund shares/units
- Insurance, pension and standardised guarantee schemes
    - Non-life insurance technical provisions
    - Life insurance and annuity entitlements
    - Pension entitlements
- Financial derivatives and employee stock options (ESO)
    - Financial derivatives (options/forwards).
- Other accounts receivable/payable
    - Trade credits and advances. Other accounts receivable/payable

14. Leasing *[2008 SNA, Chapter 17, paragraphs 17.301 to 17.309]*[53]

- Distinction between financial leasing and operating leasing based on economic ownership.
- The 2008 SNA recognises the distinction between operating leasing and the financial leasing according to whether the lessee should be regarded as the economic owner of the asset or not.
- The distinction between operating leasing and financial leasing in the 1993 SNA was based on the length of the time of lease.

15. Changes in recording pension entitlements *[2008 SNA, Chapter 17, paragraphs 17.116 to 17.206]*[54]

- The 2008 SNA recognise that pension promises are contractual engagements, in that they are expected, or likely to be enforceable and therefore they should be recognise as household assets, irrespective of the fact that segregated schemes assets exist or

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[53] System of National Accounts 2008, of 2009, p383 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

[54] System of National Accounts 2008, of 2009, p358 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

not, and that the employer may have recorded an associated liability entry in the his balance sheet or not.

- Consequently, the 2008 SNA recommends recording of the liabilities of employers' pension schemes, regardless of whether funding to meet them exists or not.
- For pensions provided by government via social security, however, countries have some flexibility to deviate from this rule in the set of standard tables.
  - This is because the division between which pensions are provided by social security and which by other employment-related schemes varies considerably from country to country.
- However, the full range of information required for a comprehensive analysis of pensions is recommended to be provided in a supplementary table that shows the liabilities and associated flows of all private and government pension schemes, whether funded or unfunded and including social security

E. Further specifications of the scope of transactions concerning government and the public sector

Government and the public sector *[2008 SNA, Chapter 4 and Chapter 22]*

1. **Recognising the fact that the powers, motivation and functions of government are different from those of other sectors of the economy and that it organises its operations through different institutional units, the 2008 SNA gives extra guidance for the distinction between general government and public corporations** *[2008 SNA, Chapter 4, paragraphs 4.25 and 4.77 to 4.80, Chapter 22]*[55].

[55] System of National Accounts 2008, of 2009, p65,p71 & p43 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

2. **Treatment of restructuring agencies has been elaborated** *[2008 SNA, Chapter 22, paragraphs 22.47 to 22.50]*[56]

- Some public units are involved in the restructuring of corporations that may or may not be controlled by government.
- Examples:
  - The recognition of the public sector and the indirect management of privatisation.
  - In the case of impaired assets, mainly in a context of a banking or other financial crisis.

3. **Treatment of government issued permits clarified** *[2008 SNA, Chapter 22, paragraphs 22.88 to 22.90]*[57]

- If a permit issued by government does not involve the use of an underlying government-owned asset, then the payment for licence is a tax.

4. **Exceptional payments from public corporation Treatment of restructuring agencies has been elaborated** *[2008 SNA, Chapter 22, paragraph 22.135]*[58]

- It is recommended that exceptional payments from public corporations should be recorded as withdrawals from equity when these are made from accumulated reserves or sales of assets.

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[56] System of National Accounts 2008, of 2009, p440 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

[57] System of National Accounts 2008, of 2009, p444 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

[58] System of National Accounts 2008, of 2009, p449 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

5. **Exceptional payments from government to public quasi-corporations should be treated as capital transfers** *[2008 SNA, Chapter 22, paragraph 22.138]*[59]

- It is recommended that exceptional payments from government to public quasi-corporations to cover accumulated losses should be treated as capital transfers for public corporations and not as additional to equity as in SNA 1993.

6. **Accrual recording of taxes** *[2008 SNA, Chapter 2, paragraphs 22.91 to 22.94]*[60]

- SNA 2008 confirms an accrual basis of recording for taxes.

7. **Tax credits** *[2008 SNA, Chapter 22, paragraphs 22.95 to 22.98]*[61]

- Tax credit represents tax relief.
- SNA 2008 recommends that payable credits should be recorded on a gross basis even though this is counter to the recommendations in Government Financial System Manual 2001 and Revenue Statistics.

8. **Treatment of ownership of fixed assets created through public-private partnerships clarified** *[2008 SNA, Chapter 22, paragraphs 22.154 to 22.163]*[62]

- The SNA gives clear guidance on the characteristics to be examined to determine whether the private or public partner is the economic owner of the asset in question.

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[59] System of National Accounts 2008, of 2009, p450 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

[60] System of National Accounts 2008, of 2009, p445 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

[61] System of National Accounts 2008, of 2009, p445 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

[62] System of National Accounts 2008, of 2009, p442-p453 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

9. Taxes on holding gains continue to be shown as current taxes on income and wealth *[2008 SNA, Chapter 8, paragraph 8.61]*[63]

- SNA 2008 recommends that taxes on holding gains continue to be shown as current taxes on income and wealth, even though the tax base is not included in the SNA definition of income.

F. Harmonisation between concepts and classifications of the System of National Accounts 2008 and Balance of Payments and International Investment Position Manual, Sixth Edition

1. Centre of predominant economic interest as the basic criterion for determining the residence of the unit *[2008 SNA, Chapter 4, paragraphs 4.10]*[64]

- With globalisation, an increasing number of institutional units have connections to two or more economics.
- The SNA 2008 and BPM6 use the concept of centre of predominant economic interest as the basic criteria whether or not an entity is a resident in an economic territory.

2. Individuals changing residence *[2008 SNA, Chapter 26, paragraphs 26.37 to 26.39]*[65]

- SNA confirms that when a person changes their country of residence; there is no change of ownership of the non-financial assets, financial assets and liabilities owned by those persons.
- The only thing that is required, is a reclassification of the appropriate country of residence of the owner of these items.

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[63] System of National Accounts 2008, of 2009, p165 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

[64] System of National Accounts 2008, of 2009, p62 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

[65] System of National Accounts 2008, of 2009, 487 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank

3. **Goods sent abroad for processing should be recorded on change of ownership basis** *[2008 SNA, Chapter 6, paragraphs 6.85 to 6.86; Chapter 14, paragraphs 14.37 to 14.42]*[66]

- The recommendation is that imports and exports should be recorded on a strict change of ownership basis in both the SNA and BPM. That is, goods being processed in one country on behalf of another should not be part of imports and exports in the balance of payments and SNA.
- This is a change from the 1993 SNA and BPM5. The consequences affect the recording of transactions within the national economy as well as international transactions.
- The decision to record on a pure change of ownership basis implies that no transactions will be recorded for intra-enterprise (inter-establishment) deliveries when goods are passed from one establishment to another for processing and then returned.
- That has implications for the input-output tables, which on the proposed basis will reflect what each unit contributes to the production process rather than the physical technology, as previously was the case. This recommendation recognises that many goods move from one country to another without entailing a consequential payment from the recipient country to the sending country other than for the service provided. The recommendations have implications for the way in which the physical movement of goods, captured in merchandise trade statistics, is reconciled with the international flows to be recorded in the balance of payments and the national accounts.
- In principle this change will have no impact on the GDP.

[66] System of National Accounts 2008, of 2009, p105 & p274-p275 by the European Communities, International Monitory Fund, OECD, United Nations and the World Bank