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## Revisions to the System of National Accounts Manual 1993 - LIST OF KEY ISSUES

A summary, details and explanation of all issues for consideration in the 1993 SNA Updating Programme prepared by the Inter-Secretariat Working Group on National Accounts (ISWGNA) are listed below.

No	Issue	Description
SNA1	Repurchase agreement	<p>A repurchase agreement (repo) involves the sale of securities or other assets with a commitment to repurchase equivalent assets at a specified price. The right to on-selling has become almost universal.</p> <p>The 1993 SNA and the BPM5 treat the repos 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?</p>
SNA2	Employer retirement pension schemes	<p>In the 1993 SNA, promises to pay future pension benefits are not recognized as liabilities of social security schemes and unfunded employer schemes.</p> <p>The review will investigate the analytical relevance of recording these liabilities in the national accounts and, if appropriate, formulate recommendations regarding their valuation and measurement.</p> <p>The review will also formulate proposals to reconcile the recommendations of the 1993 SNA and the IMF Government Finance Manual regarding the treatment of unfunded employer pension schemes.</p>
SNA3	Employee stock options	<p>Employee stock options are a common tool used by companies to motivate their employees.</p> <p>Given that the 1993 SNA does not provide guideline to this issue, the question raised is whether stock options should be considered as compensation of employees and therefore as a cost to employers.</p> <p>Experts at the OECD meeting on national accounts in October 2002 arrived at the consensus to include employee stock options in compensation of employees.</p> <p>Further harmonization with international business accounting standards is required.</p>
SNA4	Valuation of Non performing loans	<p>The treatment of non-performing loans is a topic on which the Thai authorities had asked the ISWGNA for clarification as to what extent unpaid interest should be accrued (considering that the financial intermediation services indirectly measured on such interest may affect the GDP).</p> <p>The purpose of the review is to determine what criteria should be applied to the writing-off of non-performing loans and to make sure that they are consistent with the other major macro-economic statistical systems (balance of payments, government finance, and money and banking statistics).</p>
SNA5	Non - insurance services	<p>This issue is devoted to the measurement of non-life insurance services, with a special focus on the treatment of catastrophic losses.</p> <p>The output of insurance services as calculated using the 1993 SNA algorithm depends on the balance of premiums to claims (on an accrual basis) and can therefore be extremely volatile (even negative) following major catastrophes.</p> <p>The massive claims generated by the 11 September terrorist attack, is a recent example. It had 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.</p>

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SNA6	Financial Services	<p>This issue is devoted to the measurement of the output of financial intermediation services and portfolio management in the national accounts.</p> <p>The business of financial corporations has undergone a structural transformation towards a rising importance of the portfolio management of financial assets.</p> <p>This generates holding gains and losses, that, typically, national accounts exclude from the production boundary and therefore income.</p> <p>The review will consider whether and how the production boundary can be adapted to this rising activity, and how this could influence income.</p>
SNA7	Taxes on holding gains	<p>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?</p>
SNA8	Interest under high inflation	<p>Peter Hill and Andre Vanoli have written to the ISWGNA, with regard to the treatment of nominal holding gains and interest on financial assets under conditions of high inflation, as described in the 1993 SNA Chapter XIX, Annex B and subsequently in the OECD publication "A Manual on Inflation Accounting" written by Peter Hill along a position different from that taken in Annex B in the 1993 SNA.</p> <p>Andre Vanoli has written a paper for discussion at the 1998 IARIW conference which raised issues regarding the inflation accounting treatment.</p> <p>Peter Hill has responded with a paper also submitted to the 1998 IARIW conference, essentially giving counter-arguments and in turn raising issues regarding Annex B.</p> <p>The EDG on this issue did not arrive at a distinct conclusion. This issue will be put forward to the Advisory Expert Group on National Accounts.</p>
<b>PART II: NON-FINANCIAL ISSUES</b>		
SNA9	Research and development (R&D)	<p>The 1993 SNA treats research and development (R&amp;D) expenditures of market producers as production of a notional establishment and intermediate consumption of other establishments of the same enterprise while R&amp;D expenditures by non-market producers are recorded directly into intermediate consumption.</p> <p>Questions have been raised whether R&amp;D costs should be capitalized. If that solution is chosen, should expenditure on basic research be treated similarly as expenditures for applied research and experimental development?</p> <p>Should the R&amp;D activities of non-market producers be treated as for market producers?</p>
SNA10	Patented entities	<p>In the system patented entities are treated as non-produced intangible assets. However, payments received from patent users are by convention recorded as output of services similar to rentals from lease of fixed assets.</p> <p>This is contrary to other non-produced assets such as land.</p> <p>Should R&amp;D costs and the original derived from it be linked or capitalized separately?</p> <p>Furthermore, how should originals be valued and what types of price indexes should be used to deflate the output of services from patented entities?</p>
SNA11	Originals and copies	<p>How should expenditures on originals and copies be recorded, should 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?</p> <p>How should the transactions in copies be recorded?</p>
SNA12	Databases	<p>The 1993 SNA recommends that large databases should be capitalized.</p> <p>Should SNA provide a clear definition of databases to be capitalized covering characteristics such as size and marketability of the data as well as the database itself</p>

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SNA13	Other intangible fixed assets	<p>The 1993 SNA mentions these not-elsewhere classified items in the Annex of Chapter XIII, which are restricted to the units that have established ownership rights over them or to other units licensed by the latter.</p> <p>What is intended to be included in other intangible fixed assets?</p>
SNA14	Cost of ownership transfers	<p>The review was initiated by a request from the Singapore Statistical Office and its principal focus has been whether the COT of fixed assets should be expensed or capitalized.</p> <p>The review has since broadened to include issues such as, if COT is to be capitalized what should be the service life, how should we treat COT when the underlying asset is sold by the original owner, and, by extension, how should we treat the termination costs of the underlying asset.</p>
SNA15	Cost of capital services: production account.	<p>Capital services provided by fixed assets to the production process are not explicitly defined by the 1993 SNA.</p> <p>The OECD's <b>Measuring Capital</b> defines capital inputs as the actual or estimated pure economic rent payable; that is, by the sum of depreciation and the capital, or interest, costs. There is a need for a definition of capital services in the SNA.</p> <p>Should it be rental or pure economic rent?</p> <p>Given the latter definition, the capital services of rented produced fixed assets are only part of the rental paid by the user to the owner (the remainder being the costs incurred by the renter in providing the service), and which appear in the SNA as intermediate input; and likewise, the capital services of rented non-produced assets are only a part of the rent paid, and appear in the SNA as part of gross operating surplus.</p> <p>For own-use fixed assets, capital services appear as part of the gross operating surplus.</p> <p>How should capital services be shown in the accounts for productivity analysis purposes?</p> <p>Should the treatment of capital services be introduced into the core of the SNA or be treated in a satellite account?</p>
SNA16	Government-owned assets	<p>Services from government-owned assets, which are used in the production of government services are reflected in the output of the government services only as consumption of fixed capital.</p> <p>This means that neither return on capital to these assets nor opportunity cost is recognized.</p> <p>Should the SNA treatment of imputed output to the general government activity remain the same or should capital services be included?</p>
SNA17	Mineral exploration	<p>Expenditures on mineral exploration are classified as gross fixed capital formation.</p> <p>The rationale is that mineral exploration creates a stock of knowledge about the reserves that is used as input in future production activities.</p> <p>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.</p>
SNA18	Right to use/exploit non-produced resources between residents and non-residents and between residents	<p>Except for land, transactions of the right to use or exploit non-produced resources between residents and non-residents have not been fully elaborated by the 1993 SNA.</p> <p>For land a notional resident unit is created which is deemed to purchase the land while the non-resident is deemed to purchase a financial asset (equity) of the notional unit.</p> <p>Should the treatment of land be extended to other non-produced resources such as water, fish, etc. or should there be alternative treatments?</p>

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SNA19	Military weapons	<p>The 1993 SNA divides military assets into those that can be used for civilian purposes and those that can only be used for military purposes.</p> <p>The former are treated as gross capital formation, the latter as intermediate consumption.</p> <p>This treatment does not provide an appropriate accounting system for existing weapons as 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.</p> <p>Should the line between gross capital formation and intermediate consumption be drawn differently?</p>
SNA20	Land	<p>The SNA currently 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.</p> <p>Should land be split into two, with one part recorded as a fixed asset and the other part recorded as a non-produced asset?</p> <p>If so, how should the separation be made?</p> <p>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.</p> <p>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.</p>
SNA21	Contracts and leases of assets	<p>Contracts and leases of tangible assets are defined by the SNA. However, the treatment of intangible non-produced assets is not clarified.</p> <p>These assets comprise governmental tradable leases/licences such as casino, taxi permit, foreign trade licenses and emission permits, non-governmental tradable contracts (option to buy not yet produced assets, contracts on authors, football players and other performers, etc.), subcontracting to third party of tradable leases/contracts/licenses, franchises and goodwill.</p> <p>Should and under what conditions should a lease/license/contract on non-produced assets be treated as a sale or rent of the asset?</p> <p>Should the criteria provided by the ISWGNA on mobile phones be applied or should they be further elaborated?</p> <p>Should a legal construct be recognized as a non-produced asset when it is signed?</p> <p>How should one treat a change in the market prices of a lease or contract when its value is different from the discounted sum payable?</p> <p>If it is recognized, should it be treated as a financial derivative or a non-produced asset?</p> <p>Should the concept of financial leases be broadened to include assets that are not leased for their entire service life?</p>
SNA22	Goodwill and other non-produced assets	<p>The 1993 SNA only records purchased goodwill and it treats purchased goodwill for corporations and unincorporated enterprises differently.</p> <p>Should goodwill continue to be recognized only when purchased or should internally generated goodwill be recognized?</p> <p>Should purchased goodwill be treated the same way for corporate and unincorporated enterprises?</p> <p>Should the balance sheet recognize assets such as brand names, trademarks, franchises, etc.?</p>

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SNA23	Obsolescence and depreciation	<p>Consumption of fixed capital (i.e. depreciation) 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.</p> <p>It is referred to as time series depreciation because it is defined in terms of the change in value of an asset over time.</p> <p>An alternative definition, called cross section depreciation, is defined to be the difference in value of two assets that are identical, except one is older than the other by the same length of time as the accounting period.</p> <p>Cross section depreciation is used in the derivation of estimates of multifactor productivity, and it seems that in practice, most, if not all, countries estimating depreciation are in fact applying this definition.</p> <p>Should time series depreciation continue to be the one defined in the SNA and, if so, how should it be applied?</p>
SNA24	Build-Own-Operate-Transfer (BOOT) schemes	<p>BOOT is a scheme in which a private enterprise builds or purchases a facility that provides services for the general public (such as toll booth, highway, prisons or electric generating facility) at its own expenses in return for the right to operate it and to charge a regulated fee that allows it to earn a net profit for an agreed length of time.</p> <p>At the end of the period, the ownership of the facility is transferred to the government without compensation.</p> <p>Should SNA provide guidance to the treatment of the various BOOT schemes?</p>
SNA25	Units	<p>Ancillary units engage in an ancillary activity that is undertaken not for its own sake but purely in order to provide supporting services for the principal or secondary activities with which it is associated.</p> <p>Typical examples of ancillary units are the headquarter office, warehouses and transport facilities.</p> <p>The output of an ancillary activity is not explicitly recognized in the SNA and all the inputs consumed by an ancillary activity are treated as inputs into the principal or secondary activity, which it supports.</p> <p>Should the SNA treatment of ancillary units remain the same or should it be modified to facilitate the compilation of regional accounts?</p>
SNA26	Cultivated assets	<p>During the System of Economic and Environmental Accounts discussions, it was agreed that the present definition of cultivated assets in the SNA is ambiguous.</p> <p>Should the SNA's definition be tightened as follows: cultivated assets cover livestock for breeding, dairy, draught, etc. and vineyards, orchards and other trees yielding repeat products <b><i>whose natural growth and regeneration</i></b> is under the direct control, responsibility and management of institutional units?</p> <p>The words in bold italics replace the words that are in the SNA.</p>
SNA27	Classification and terminology on asset	<p>Should the classification of assets be revised in line with the review of other issues such as leases and licenses?</p> <p>Should the tangible/intangible dichotomy be suppressed?</p>
SNA28	Amortization of tangible and intangible non-produced assets	<p>The final report of the ISWGNA on mobile phone licenses includes a brief discussion of the issue of the amortization of intangible non-produced assets.</p> <p>Should this issue be further elaborated for various cases of non-produced assets such as contracts, leases, goodwill and others?</p>
SNA29	Assets boundary for non-produced intangible assets	<p>Should instruments involving the securitisation of future receipts of government be regarded as intangible non-produced assets?</p>

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SNA30	Definition of economic assets	<p>Should we add a criterion of 'reliability of measurement'?</p> <p>The SNA currently gives two criteria for an asset - an entity functioning as a store of value: over which ownership rights are enforced by institutional units; and from which economic benefits may be derived.</p> <p>Should there be a third criterion "reliability of measurement" to bring the definition more into line with business accounting standards?</p> <p>With this third criterion, some 'assets', such as brand names, could be excluded because it is too hard to quantify them.</p>
SNA31	Valuation of water	<p>When water is no longer a free resource, how should the charge for it be treated?</p> <p>Should it be treated in a similar way to land or mineral resources as giving rise to rent?</p> <p>It is complicated by the fact a large part of the charges is distribution costs.</p>
SNA32	Informal sector	<p>The distinction between the formal and informal sectors of the economy.</p> <p>Much of the work done over the past few years on the hidden economy is relevant to this issue, which has been a particular concern of developing countries and has become so for transition economies.</p> <p>Although the issue may not need further discussion by the AEG, they may want to consider whether a special section, even maybe a special chapter, should be added on the topic.</p>
SNA33	Illegal and underground activities	<p>The 1993 SNA makes no distinction between legal and illegal transactions as long as the exchanges are occurring with mutual consent.</p> <p>While, it is noted that obtaining credible information on these illegal transactions will be very difficult, at the same time it is stated that their exclusion will introduce errors in the accounts including the balancing items.</p> <p>The 1993SNA draws a distinction between illegal activities and underground activities of which the latter activities are defined as those that are concealed from the public authorities for various reasons like evasion of taxes, health and safety regulations.</p> <p>Both the illegal and underground activities may in some countries be a significant part of the economy.</p> <p>It is therefore particularly important to estimate the production from underground and illegal activities even if they may not always be separately identified.</p> <p>A summary of best practices based country experiences should provide further guidelines on their treatment</p>
SNA34	Super dividend, capital injections and reinvested earnings (government transactions with public corporations (earnings and funding))	<p>While this issue is generally applicable to the treatment of the transaction of dividends (losses) between corporations (quasi-corporations) and their controlling shareholders, in particular the attention will be given to the treatment of transactions between public corporations and government.</p> <p>More systematically, the accrued profits and losses of all public corporations could be treated on similar lines as the reinvested earnings of the resident foreign direct investment enterprises with non-resident share holders.</p> <p>Super dividend or other lump sum payments are made to the government treated as non-financial transactions would allow governments to manipulate the timing of recording; when treated as financial transactions this manipulation would not be possible.</p> <p>Otherwise, capital injections could be perceived as compensation for past and future losses of public corporations that failed to be (or will not be) accrued and therefore should be construed as expenses rather than treated as a financial transaction.</p>

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SNA35	Tax revenue, uncollectible taxes, and tax credits (recording of taxes)	<p>Expensing tax credit separately for tax revenue is increasingly hampered by the fact that source data may not allow separate recording of expenses, reducing internal comparability.</p> <p>Moreover, uncollectible taxes should not be expected to accrue. An estimated uncollectible amount based on experience could be either deducted from the gross amount under the accrual principle ('net recording) or alternatively recorded as capital transfer (gross recording).</p> <p>Another alternative treatment would record unpaid taxes via the other change in volume accounts.</p> <p>Time of recording is an issue for income and wealth tax.</p> <p>For instance, for households it might be preferred to record the taxes at the time of assessment because it affects behavior at that time.</p> <p>This treatment would be a deviation from the accrual principle that calls for recording taxes when the obligation to pay arises.</p>
SNA36	Private/public/government sectors delineation (sectorization boundaries)	<p>In 1993 SNA, the notion of control, which defines the public sector boundary, is more elusively defined. Weak areas refer to special purpose vehicles (SPV), notably created in the context of public private partnerships (PPP) or securitization.</p> <p>Other areas relate to how control is determined, including the link with the mainly financed concept for non-profit institutions.</p> <p>Another issue relates the market versus non-market distinction.</p> <p>The distinction between government and public corporation might be based on a legal status or whether production takes place at economically significant price.</p> <p>The ESA 1995 has established a rigid rule of 50 percent of the costs to be covered by sales. Is the 50 percent high enough?</p>
SNA37	Activation of guarantees (contingent assets) and constructive obligations	<p>This issue basically pertains to the formulation of the treatment of flows between the original debtor and creditor and between the original debtor and guarantor when the guarantee is activated or between debtor and creditor when collateral is called by the creditor.</p> <p>While the 1993 SNA does not treat these flows, GFSM 2001 describes the treatment of debt assumption involving general government: either acquisition of financial asset, acquisition of equity, capital transfer, or other volume changes.</p> <p>In addition, this issue addresses the recognition of constructive obligations which are not legally enforceable liabilities but are nevertheless expected to result in outflows.</p> <p>The recognition of the latter would result in the relaxation of the economic asset boundary.</p>
SNA38	Transaction concept	<p>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).</p> <p>However, the 1993 SNA does not explicitly define ownership. The term 'economic ownership' better reflects the underlying economic reality of the transaction where risks and rewards of ownership lie.</p> <p>The flows of goods and changes in financial account arising from a change in residence of individuals are treated as imputed transactions in the BPM5, which are offset in the capital account by capital transfers called migrants' transfers.</p> <p>The 1993 SNA is not explicit on this account. Because no change in ownership occurs, it is proposed that changes in financial claims and liabilities due to change in residence of individuals be treated as reclassification in other changes in volume account.</p>

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SNA38	Transaction concept (continued)	<p>The time of recording principle for scheduled payment is different between on the one hand BPM5, External Debt Guide, and GFSM2001 and the 1993 SNA on the other hand. The first uses the due-for-payment date basis involving imputation of transactions that the liability has been repaid and replaced by a short term debt.</p> <p>The latter uses 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.</p>
SNA39	Residence	<p>The concept of national economy is closely related to the concept of residence. In the 1993 SNA, it is discussed in terms of "economic territory of a country" for which two contradicting criteria are used: administration by a government and free circulation of persons, goods and capital. Clarification is also needed between domestic and national economy.</p> <p>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.</p> <p>For those enterprises and other entities, production and location might not be useful criteria. As a result, the jurisdiction that allows the creation of and regulates the entity will be considered as the entity's predominant centre of interest.</p> <p>In case of non-permanent workers with connections to two or more territories, it would be useful to prepare supplementary presentation 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 short-term non-resident workers.</p> <p>Also harmonization of the residence concept with demographic, tourism, and migration statistics should be sought and any remaining differences spelt out.</p>
SNA40	Goods sent abroad for processing	<p>The BPM5 and the 1993 SNA treat the goods sent abroad for processing differently.</p> <p>The BPM5, as a practical matter, suggest a convention that all processing be assumed substantial and therefore gross flows are recorded.</p> <p>The 1993 SNA only records gross flows in case of substantial processing (reclassification of the good at three digits CPC).</p> <p>The issue is that no change in ownership and thus transaction takes place. Moreover, can a distinction be made between the different levels of processing?</p> <p>It is mentioned that the current treatment of goods for processing in the 1993 SNA was to facilitate input-output analysis. Therefore, any change should take into account this issue.</p>
SNA41	Merchanting	<p>'Merchanting' is a term used in BPM5 for the activity of trading in goods that do not enter the territory of the trader.</p> <p>In such case, the treatment is to report only the margin earned in the territory of the trader. In case the trade is not concluded during the accounting period, changes in inventories are shown as imports (negative if inventories decrease).</p> <p>The issue is not covered in 1993 SNA.</p>

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SNA42	Retained earnings of mutual funds, insurance companies, and pension funds	<p>In the 1993 SNA retained earnings of an entity are generally treated as the income and saving of the entity, rather than the owner.</p> <p>However, exceptions are made for life insurance companies, pension funds and foreign direct investment companies, where there is an imputed flow to the policyholders, beneficiaries, and owners, with an equal financial account flow.</p> <p>The ESA 95 introduces an imputed transaction for the retained earnings of the mutual funds where income is attributed to the investors and then reinvested in the fund.</p> <p>That treatment brings about some consistency with the treatment of life insurance and pension funds which are other types of collective investment schemes.</p> <p>Other symmetries of the treatment of retained earning have been suggested, either expand or reduce the imputations. Moreover, the issue of negative earnings has to be addressed.</p>
SNA43	Interest and related issues	<p>For index-linked debt instruments, changes in principal arising from indexation are recorded as interest.</p> <p>However, should both creditor and debtor approaches for index-linked debt instruments be clarified?</p> <p>Moreover, the 1993 SNA, BPM5 and other manuals mention exchange rates as one of various indicators to which indexation can be linked.</p> <p>However, they are not explicit on whether debt instruments with both principal and interest indexed to a foreign currency should be treated similarly to index-linked instruments or to foreign currency debt instrument.</p> <p>Loans with concessional interest rates could be seen as providing current transfer equal to the difference between the concessional interest and the market equivalent. If such transfers are recognized, interest recorded would be adjusted for the same amount.</p> <p>Concessional rates in commercial and international assistance programs should be distinguished because in commercial situations these rates are used to encourage purchases.</p> <p>Neither the 1993 SNA nor BPM5 discuss the issue of fees payable on securities lending and gold loans.</p> <p>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 remaining with the original owner.</p> <p>The fee payable on gold loans appears to be a payment for services as gold in this instance is non-monetary gold.</p>
SNA44	Financial assets and classification	<p>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'.</p> <p>Moreover, all types of financial derivatives are currently treated as a single item but there is an interest in splitting derivatives in forwards and options, given their different behavior.</p> <p>Further considerations are to be given to the introduction of employee stock options.</p> <p>Again it is raised whether nonmonetary gold should be classified as a financial asset rather than under valuables in the asset classification.</p> <p>Non-monetary gold being financial assets would allow for the gold transactions to be netted, in line with financial transactions.</p> <p>Moreover, as a consequence, fees payments to owners under gold loans would be classified as property income rather than a service.</p>