Forty-Second Meeting of the
IMF Committee on Balance of Payments Statistics

Bali, Indonesia
October 24–26, 2023

BOPCOM—23/16
For discussion

# Issues Note on Resolving Outstanding Issues

Prepared by the SNA Lead Editor

INTERNATIONAL MONETARY FUND

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11 October 2023

## Introduction

1 At the July 2023 meeting of the Advisory Expert Group (AEG) on National Accounts, almost all issues related to the update of the 2008 SNA were resolved, by having arrived at an agreement regarding the recommendations included in the last few outstanding Guidance Notes[1], and also the recommendations included in the issue notes for a limited number of action points[2]. Furthermore, the note on resolving minor action points has been finalized via a written procedure. Where necessary, the IMF Balance of Payments Statistics Committee (Committee) was involved as well.

2 After the finalization of all these issues, a consolidated list of recommendations for the update of the 2008 SNA has been drafted, which was circulated for global consultation at the 16th of August 2023, with the 15th of September 2023 as the closing date for responding (later extended to the 28th of September 2023).

3 Notwithstanding these important milestones in the process of updating the 2008 SNA, it was also clear from the start that some issues may pop up afterwards. It was agreed that these issues would be collected and put forward to the AEG, and if needed the Committee, at certain points in time. This issues note represents the first batch of outstanding issues, as follows:

a. interest on other accounts receivable/payable;
b. treatment of crypto funds and other funds investing in non-financial assets; and
c. treatment of individual pension trusts.

These issues are further elaborated below.

4 In addition, it was agreed to have another look at the exact formulation of the delineation of social insurance, in close cooperation with a number of experts in the area. This will be dealt with as part of the drafting process of the relevant chapters. If needed, the AEG will be consulted as well.

[1] This concerns Guidance Note AI.2 (Recording of rent), CM.2 (Terminology and branding of economic accounting statistical standards), WS.1 (A broader SNA framework for well-being and sustainability), WS.6 (Accounting for the economic ownership and depletion of natural resources), and WS.7 (Emission trading schemes).

[2] This concerns action points A.8 (Consistency in the application of the sum of costs approach), A.9 (Consistency in measuring the output of central banks), A,13 (Addressing the current ambiguities and inconsistencies regarding the recording of social security and employment-related schemes, and the current guidance for constructive liabilities), and C.2 (Treatment of (services derived from) the atmosphere).

5 Furthermore, in the context of the issue note on "Action point A.6 on the treatment of trusts and other types of funds as separate institutional units", questions were raised about the treatment of government and public sector trusts; see paragraph 25 of the final version of the relevant issue note. Given all the additional complexities involved, the treatment of these trusts was not further elaborated in the issue note. Instead, it was considered to draft a separate note on the treatment of these trusts. Experts from Government Finance Statistics have agreed to draft such a note, which will become available at the end of November. This note will be put forward to the AEG, and if needed the Committee, probably – because of time constraints – by written procedure.

6 Finally, in the context of issue note on "Action point A.13 on Addressing ambiguities and inconsistencies regarding the recording of social security and employment-related schemes, including the current guidance for constructive liabilities", it was noted, in paragraph 43, that further discussion with the GFS-community is needed, in order to come up with more concrete recommendations for including additional guidance on the treatment of provident funds. A meeting to discuss this issue in more depth still has to be organized. Again, the AEG, and if needed the Committee, will be consulted on the proposed recommendations, probably by written procedure.

7 The AEG and the Committee are requested to express their opinion on the recommended solutions for the three issues listed in paragraph 3 and further elaborated below. In addition, members may have knowledge of other (potential) outstanding issues that they would like to put forward for consideration.

**Interest on other accounts receivable/payable**

8 The 2008 SNA is unclear about the possibility of interest earnings on other accounts receivable/payable. The current definition of interest, in paragraph 7.113 of the 2008 SNA, states the following: "*Interest is a form of income that is receivable by the owners of certain kinds of financial assets, namely: deposits, debt securities, loans and <u>(possibly) other accounts receivable</u> for putting the financial asset at the disposal of another institutional unit*" (underlining by the author), while paragraph 17.236 of the 2008 SNA states the following: *"As far as possible, there should be no interest arising on other accounts receivable or payable since the amounts outstanding that give rise to interest payments should be classified as loans. In practice this might not always be possible in which case there will be some amounts of interest shown under this instrument also. Except for other accounts receivable or payable, only gold bullion, currency, non-interest bearing deposits, financial derivatives and employee stock options never give rise to investment income*".

9 On the other hand, paragraph 13.84 notes the following when describing balance entries for other accounts receivable/payable: *"… Interest due on other accounts receivable or payable may be included here but, in general, interest due on debt securities is recorded as increasing the value of the asset concerned …"*, and – even more explicitly – paragraph 3.144 states: "*A less obvious mingling of transactions occurs when the provision of an asset*

*and the related money payment or payments do not take place simultaneously. When the time gap becomes unusually long and the amount of trade credit extended is very large, the conclusion may be that implicitly an interest fee has been charged. In such extreme cases, the actual payment or payments should be adjusted for accrued interest in order to arrive at the correct value of the asset transferred. Such adjustments are not recommended for normal trade credit*". It is not clear, however, why an exception has been made for "normal trade credit". One has to assume that it is related to the fact that normal trade credit is relatively short-term in practice.

10 From a conceptual point of view, it seems illogical to exclude the possibility of interest accruing on other accounts receivable/payable, certainly in times of high inflation and interest rates. Not accounting for interest in the case of longer periods of time between, for example, the delivery of a good or service and the actual payment would clearly lead to a misrepresentation of output, which is equal to the discounted value of future receipts.

11 That said, accounting for interest on other accounts receivable/payable is much more complicated from a feasibility point of view, mainly because interest is often not charged explicitly, and may not be recorded as such in the books of the units delivering the goods or services, or the units having other accounts receivable/payable for another reason (e.g., taxes receivable/payable, or accounts receivable/payable related to the settlement of a financial transaction). The same probably holds for discounts given in the case of immediate payment, which could also be looked upon as a form of interest.

12 Here, it is recommended to follow the logic of paragraph 3.144 of the 2008 SNA, i.e., to adjust the actual payment(s) for the accrued interest in cases the time gap becomes unusually long and the amount of trade credit extended is very large. One could add here that such a recording becomes even more relevant in periods of high inflation and interest rates. In addition, it is also recommended to remove the guidance, as included in paragraph 17.236 of the 2008 SNA, on the reclassification of other accounts receivable/payable to loans in the case interest is accrued on the financial instrument, which will anyhow be very difficult to apply in practice.

13 It is acknowledged though that in practice it may not be that easy to implement the above guidance on the accounting for interest on other accounts receivable/payable, and that the recommended recording may only be feasible in cases where interest is explicitly charged and accounted for. Nevertheless, it is recommended to provide guidance which is considered more appropriate from a conceptual point of view, thereby recognising the practical problems. It may also motivate countries to make adjustments in more extreme cases of high inflation and interest rates combined with considerable time gaps between the delivery of goods and services and the actual payment, or other cases which give rise to other accounts receivable/payable.

**Treatment of crypto funds and other funds investing in non-financial assets**

14 In relation to the classification of investment funds, it has been agreed to classify real estate investment funds in the non-financial corporations' sector, if they primarily own, and rent out, dwellings and/or commercial property. This raises the question how to deal with crypto funds.

15 Crypto funds are relatively new investment vehicles similar to traditional investment funds containing a portfolio of digital tokens and cryptocurrencies instead of stocks, indices, or commodities. The problem is that, similar to real estate investment funds, the portfolio may predominantly consist of (non-produced) non-financial assets.

16 Here, it is recommended to treat crypto funds as part of investment funds, because – differently to real estate investment funds – it is not to be expected that the majority of the services produced by these funds relates to non-financial services produced using the input of the relevant non-financial assets.

17 Regarding the question whether these funds would qualify as money market investment funds (S.123) investing "*primarily in money market instruments, MMF shares or units, transferable debt instruments with a residual maturity of not more than one year, bank deposits and instruments that pursue a rate of return that approaches the interest rates of money market instruments*", one may be inclined to classify crypto funds as such, given that these crypto assets from a certain perspective resemble instruments that pursue a rate of return that approaches the interest rates of money market instruments. However, because of the speculative character of crypto funds, it is recommended to classify them as non-MMF investment funds.

18 It should be noted that the treatment of crypto funds is part of a broader, more generic, issue around the classification of funds investing in non-financial assets. It may also relate to funds investing in, for example, gold and other valuable metals, or investing in bottles of high-end wines or whiskies. Also in these cases, one could argue that the assets, which are primarily held for the purpose of generating holding gains for the investors, do not generate any non-financial services. Therefore, the funds would still qualify as financial corporations.

19 A rather particular situation created by the way in which production is recorded in macro-economic statistics concerns the classification of real estate investment funds who predominantly invest in real estate in countries different from the country of residence of the relevant fund. As real estate, including cases where it is owned by a non-resident unit, is always recorded as being owned by a (notional) unit resident in the same country where the real estate is located, the income from such real estate flowing to the fund is to be recorded as investment income in macro-economic statistics, although the books of the

fund may attribute it to income from rental services. As such, they would qualify as investment funds, at least from a technical point of view.

20 However, one may assume that such cases of direct ownership of real estate in other countries is relatively rare, and that typically branches with a more formal legal status will have been created, as a consequence of which such real estate investment funds, as owners of equity in non-resident units, can be classified as financial corporations. The same may actually hold for real estate investment trusts owning shares in domestic units exploiting real estate, which are to be regarded as separate institutional units.

**Treatment of individual pension trusts**

21 The final issue concerns the treatment of individual pension trusts. This issue was put forward in the context of the issue note on Action point A.6 on "the treatment of trusts and other types of funds as separate institutional units" (see paragraph 35 of the relevant note). In some countries, the government provides the opportunity to establish individual pension trusts. Here, the question arises whether these individual trusts would qualify as social insurance, as a consequence of which, different from the general treatment of trusts, the trust would not be consolidated with the beneficiary, even if the beneficiary benefiting from such a trust is restricted to an individual or a family.

22 In Australia, for example, the government introduced compulsory superannuation in 1991, with the idea to provide income in retirement to supplement or replace reliance on the general pension provided by government. A specific part of this policy was the Superannuation Guarantee Act 1992, which created an obligation for employers to pay a portion of employees' income to superannuation funds. Around, 1999, once again under government encouragement, saw the creation self-managed superannuation funds (SMSFs). The initial idea of SMSFs was for the self-employed to establish and manage funds for their retirement (as they would not have employers contributing to their pension funds on their behalf). However, currently many groups of individuals have SMSFs as well as do small business. All superannuation funds, including SMSFs must elect to be regulated by under the Superannuation Industry (Supervision) Act 1993, to receive concessional taxation treatment on contributions. SMSFs can have a small number (maximum of 6) of members. Generally, the trustees of the funds are the beneficiaries of the fund. SMSFs are regulated by the Australian Taxation Office. Nowadays, superannuation assets amount to 3.5 trillion Australian Dollars, of which 25% relates to SMSFs.

23 Treating these funds as social insurance has a significant impact on the recording. If they are considered as social insurance, any contribution to the fund, including the investment income on the accumulated funds, would qualify as (imputed) social contributions, while payments out of the accumulated assets would be recorded as social benefits. The assets

of households and related liabilities of the trusts would be recorded as pension entitlements.

24 On the other hand, if the trusts are not considered as social insurance type of schemes, a significant part of the trusts, i.e., the ones which only have one individual or family as beneficiary, would be consolidated within the households sector. Trusts with multiple beneficiaries would be considered as separate institutional units to be classified as captive financial institutions, and the assets of the households would be recorded as equity. Furthermore, the contributions to the funds would not be recorded as social contributions but as financial investments in either the accumulated assets, or the equity of the trusts that are being considered as separate institutional units. This also holds for contributions paid by employers for the benefit of their employees, which would not qualify as employers' actual contributions, but as part of wages and salaries.

25 Looking at the defining criteria for treating arrangements as social insurance, the individual pension trusts can be looked upon as social insurance, because they provide "insurance" against social risks. Furthermore, one of the three conditions for delineating social insurance, as listed in paragraph 8.65, is met, in this case the second one: "*The scheme is a collective one operated for the benefit of a designated group of workers, whether employees or self-employed persons, which may also include persons temporarily without employment, participation being restricted to members of that group".* [3] In the case of trusts set up by employees, also the third condition may be met: "*An employer makes a contribution (actual or imputed) to the scheme on behalf of an employee, whether or not the employee also makes a contribution*".

26 Importantly, paragraph 8.74 makes clear that arrangements do not necessarily have to be compulsory. Encouragement may be sufficient: "*Social insurance schemes are essentially schemes in which workers are obliged, or* ***encouraged****, by their employers or by general government to take out insurance against certain eventualities or circumstances that may adversely affect their welfare or that of their dependants*". In a similar vein, paragraph 8.72 states the following: "*Social insurance schemes must be organized collectively for groups of workers or be available by law to all workers or designated categories of workers.* ***They may range from private schemes arranged for selected groups of workers employed by a single employer, private schemes organized for selected groups of self-employed persons, to social security schemes covering the entire labour force of a country****. Participation in such schemes* ***may be voluntary*** *for the workers concerned, but it is more common for it to be obligatory*". (In both cases, bolding by the author).

[3] Please note that in this note the updated guidance has been applied, in line with the endorsed issue note on "Action point A.13 on Addressing ambiguities and inconsistencies regarding the recording of social security and employment-related schemes, including the current guidance for constructive liabilities". For paragraph 8.65, the exact wording is still under discussion, as mentioned in paragraph 4 of this note.

27 However, it should also be noted that in the case of voluntary schemes, to which employers do not make contributions, additional criteria have to be applied, to differentiate them from individual type of insurance policies. This is especially relevant in the case of schemes for self-employed. Here, a new paragraph to be included in the 2025 SNA states the following: "*Schemes providing social benefits may also be established for groups of self-employed persons. When organized by government, as part of a broader arrangement, such schemes would typically qualify as social insurance. If government is not directly involved, the default option is to not treat such types of schemes as part of social insurance, unless* ***the schemes are collective arrangements which provide policies, for certain industries or professions, with a strong resemblance to similar arrangements organized by employers or government. These schemes may, or may not, be encouraged by government; in the former case, this would strengthen the case for a classification as social insurance.*** *In addition, to qualify as social insurance,* ***generally separate institutional units should be established, which are subject to regulation or supervision in line with or similar to other social insurance schemes****. In the case of pension-related schemes, an additional criterion for the qualification as social insurance is that* ***accumulated contributions are set aside for retirement income****".* (Bolding by the author)

28 In general, one can argue that the criteria listed in the above paragraph are met for the individual pension trusts such as the ones established in Australia, also in the case of trusts set up by self-employed and other self-managed schemes. From an individual's point of view, the purpose of a SMSF is the same as that of other pension funds, except that the individual has full control over the investment decisions. Furthermore, the rules and regulations (and taxation) that apply to pension contributions to and payments from SMSFs are no different in principle to employer or industry superannuation funds. In this respect, one could also argue that the rules and regulations for the operations of SMSFs are very different from the case of an individual who simply buys shares, property, etc. on their own account as an alternative to having superannuation assets.

29 Similar arrangements to those in Australia for SMSFs may be set up in other countries and the proposed treatment of SMSFs would also apply to these schemes. When the relevant part of the updated SNA is drafted to deal with this issue, it will be written in generic terms.