NATIONAL STATISTICIAN'S COMMITTEE FOR ADVICE ON STANDARDS FOR ECONOMIC STATISTICS

29 July 2024

Paper	Reference	Page Number
Advice: System of National Accounts 2025 Chapter 25: Selected issues on financial instruments	NSCASE(24)12	2
Advice: System of National Accounts 2025 Chapter 29: Financial Corporations	NSCASE(24)13	9
Advice: System of National Accounts 2025 Chapter 5: Residence, institutional units and sectors	NSCASE(24)14	24
Decision: BPM7 Adoption: Principles for NSCASE	NSCASE(24)15	37
Advice: BPM7 Chapters 5, 7, 8 and 9	NSCASE(24)16	39
Decision: UK's adoption of industrial classification of economic activity	NSCASE(24)17	61
Note on upcoming updates to manuals and classifications		80

2025 SNA Chapter 25: *Selected issues on financial instruments*

Advice Paper

NSCASE(24)12

Please note that the UK comments and this paper were based on version 7 of this chapter (here) rather than the version in the full draft

Executive Summary

1. Chapter 25 of the 2025 SNA develops parts 3, 4 and 6 of Chapter 17 of the 2008 SNA and acts as a supplement to chapters 12, 13 and 14 of the 2025 SNA. The chapter provides additional details on three financial instruments, including standardised guarantees, credit derivatives and employee stock options and touches on measurement issues relating to the recording of flows associated with financial assets and liabilities in the broader sequence of economic accounts.

2. Chapter 25 was published on 27th November 2023. The UK submitted a response on 5th January 2024 which is provided in Annex 1.

3. This paper identifies areas of concern to ONS in the current draft of Chapter 25.

4. ONS asks NSCASE Committee members to review the content of this paper. Members are also invited to identify any areas of concern to them which are not mentioned in this paper.

5. Specifically, the ONS would like the Committee's views on:

   a. **Whether the Committee agree with the UK response to the global consultation.**
   b. **If there are any areas of concern the Committee have in relation to the chapter that the UK did not raise.**

6. As with previous 2025 SNA Chapters brought before the Committee, the official consultation deadline for this chapter has passed and therefore the opportunity to feed back to the paper editors is not possible at this stage.

Introduction

7. This paper sets out the ONS position in relation to the draft version of the 2025 System for National Accounts (SNA) Chapter 25: Selected issues in financial instruments.

Introduction

8. Chapter 25 forms one part of the SNA's content on the finance sector and financial transactions, and overall final judgements on how the SNA approaches these subjects should be reserved until all parts are available, those being Chapters 12, 13, and 14, all of which are not available at time of writing.

9. ONS consulted on the draft 2025 version System for National Accounts (SNA) Chapter 25 in late 2023 and found overall that the chapter had a lot of merit.

10. In Annex 1, the ONS provides specific comments on paragraphs within the chapter. These were submitted to the UN as part of the international consultation on the 5th of January 2024. Annex 2 supplies a series of global responses.

11. The development of the SNA 2025 and its drafting discussion was set out within a paper "SNA 2025 Background & SNA Drafting Principles" presented to NSCASE in January 2024, and revised considering the discussion that took place.

12. Below ONS provides a brief background of the chapter for colleagues who have not had the opportunity to read it. If you have read the chapter skip forward to the ONS concerns section.

Background

13. This new SNA chapter includes parts of what was covered in SNA08 Chapter 17 (Cross-cutting and other special issues). As such, it discusses the measurement of new concepts, including the treatment and types of Standardized guarantees, the definition, conventions, classifications and valuation of Credit Derivatives and Employee stock options. The chapter concludes by offering guidance on recording of flows in financial instruments, including transactions as well as other changes in assets and liabilities.

Standardised guarantees

14. Standardised guarantees can be issued by either the commercial (e.g. non life, credit insurance) or the public sector (student loans, mortgage insurance to promote home ownership). Two criteria distinguish Standardised guarantees from one-off guarantees. First, Standardised guarantees are characterised by repeated transactions with similar features and pooling of risks and second, guarantors can estimate the average loss based on available statistics by using a probability-weighted concept.

15. When government units provide standardised guarantees without fees or at such low rates that the fees are significantly less than the calls and administrative costs, the unit should be treated as a non-market producer within general government.

Credit derivatives

16. Credit derivatives are financial derivatives whose primary purpose is to trade credit risk. They are designed for trading in loan and debt security default risk. Credit derivatives can take the form of both forward and option type contracts.

17. There are three types of credit derivatives: credit default swaps (type of option), credit default options (an option to buy protection or sell protection via a credit default swap) and total return swaps (a forward contract which is a modified equity swap).

18. Credit derivatives can be classified in several different ways, including by instrument (e.g Forwards, including exchange traded futures and over the counter forwards and swaps, and options), by maturity, by delivery type or by trading venue. It is generally agreed however, that the most appropriate way of classifying credit derivatives to aid analysis is by market risk (e.g. for Foreign exchange interest rate, equity, commodity, credit and other derivatives).

19. Financial derivatives are reported on the balance sheet account, ideally on a gross basis as assets or liabilities, that is as an asset in the case of a holding gain and as a liability in the case of a holding loss (potential cash outflow).

20. The value of most derivative positions emerge largely from revaluation. The initial value of a forward-type financial derivative is typically zero (no transactions record), but it acquires a value as soon as there is a change in circumstances that the financial derivative is designed to address.

21. At this point, a financial asset of one party and matching liability are recognised as a flow and recorded in the revaluation account and on the balance sheet, however some fluctuations in value are the result of transactions in margin which act to reduce the exposure of the derivative contract between two parties.

22. In the case of options, including credit default swaps, the full price of the premium should be recorded as an acquisition of a financial asset by the buyer and as incurrence of a liability by the seller in the financial account, with corresponding positions in the balance sheet account.

Employee stock options

23. Chapter 12 notes an employee stock option is an agreement made on a given date (the “grant” date) under which an employee may purchase a given number of the employer’s stock at a stated price (the “strike” price either at a stated time (the “vesting” date) or within a period of time (the “exercise” period) immediately following the vesting date.

24. In the SNA, if there is neither an observable market price nor an estimate made by the corporation, the valuation of the options may be estimated using a stock options pricing model.

25. An estimate of the Employee stock option should be made on the grant date. If not possible the value of the option should be recorded at the vesting date.

26. The costs of administering Employee stock options are borne by the employer and are treated as part of Intermediate Consumption just as any other admin function associated with Compensation of Employees. Although the value of the stock option is treated as income, there is no investment income associated with ESOs in the primary account.

Recording of flows associated with financial assets and liabilities.

27. Holdings of financial instruments can give rise to various types of returns (interest and dividends) which are recorded as transactions in the primary account. Transactions in financial instruments and holdings of financial instruments may also give rise to fees charged by fin corps, some explicit and some implicit, and included in their output measure.

28. Financial assets and liabilities stocks also generate other flows – revaluations from holding gains and losses as well as volume changes, as discussed in Chapter 13.

29. All in all, non-financial and financial transactions, as well as other flows, determine the changes between opening and closing stocks on the balance sheets.

30. The remainder of the chapter provides guidance on the measurement of financial flows relating to a range of financial instruments including monetary gold, special drawing rights, deposits and loans, debt securities, service charges and accrued interest (on bills, commercial paper, bonds and debentures), index linked securities, equity and investment fund shares, financial derivatives, employee stock options and other accounts receivable or payable.

ONS Considerations

31. ONS is comfortable with the content of this Chapter, which represents a good step forward in introducing additional detail for these financial instruments.

ONS Concerns

32. ONS has no significant concerns with the statistical principles laid out in this new chapter.

Annex 1 – Specific Paragraph comments

38.1 - Section B 'The treatment of standardized guarantees' - UK are satisfied with the proposed changes.

38.2 - Paragraphs 25.19 to 25.21 - The UK note that these paragraphs could benefit from a table of transactions in the form of a T account, which would help to establish the recording of the transaction and associated flows in a visual way.

38.3 – Section D on employee stock options: "The section is unclear on the correct treatment of ESOs that are not exercised, including those that are underwater (their value is lower than the share price) when they get to their vesting period. The UK would like to see guidance on whether it should still be treated as an issue of shares whether the ESO liability entry can be extinguished without the issuing of shares. The value of the ESOs that are underwater also needs to be carefully considered when calculating any holding loss as they have no value if they are underwater since the shares could be purchased for less than by using the option. Forfeiting options is not covered beyond the initial mention in para 25.88. As such, clarity on how the employee cannot exercise those options should be reflected in the accounts."

Annex 2 – Global Responses

Organisation	Comments
Banque de France	• 25.85: We support the addition of new classifications, but we suggest to keep them on an equal footing: Current wording: *The proposed recommended breakdown of financial derivatives emphasizes risk as the main classification as follows: by market risk category as the first supplementary item subclassification. The focus by derivative type (forwards, options, credit, other and hybrid derivatives) is a second supplementary subclassification, with detailed types of contracts, if possible.* Proposed wording: *The proposed recommended breakdown of financial derivatives emphasizes ~~risk as the main~~ classification by type of contract (option like or forward like type), ~~the first supplementary item subclassification. The focus is a second supplementary subclassification,~~ with subclassifications as detailed types of contracts and by market risk category, trading venue, compensated or not, if possible.* • 25.119: Non-interest bearing interests do not give rise to "bank" interests, but they do give rise to "SNA" interests. Proposed wording: *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. Moreover, the sentence "*For the sake of simplicity, the SNA assumes no interest is charged on other accounts receivable/payable.*" has been added. 25.146: It would be beneficial to provide more explanation about the definition of "interest" given in this paragraph (or to add reference to other SNA paragraphs if it will be explained in a different chapter
South African Reserve Bank	Sought clarity on standardised guarantees with regards to pension-backed loans, life insurance policies, and mortgage loans. Agree with section C, but 'it will be difficult to split derivatives contracts according to the new sub-classification (foreign, market, commodity, equity etc.) as well by transaction and flows data.' • Central Bank of Chile supported this, noting the Derivative Market in Chile is small compared to other countries
Bank of Spain	Suggested consulting MGDD methodology with a specific focus on the treatment of received fees. 'It should encompass both gross and net accounting for fees, clarifying their impact on the evaluation of potential capital transfers related to NPL. Providing a more detailed description of these aspects would contribute to a better understanding of the overall process.'
Netherlands Bank	Off-market swaps have the characteristics of a loan
US FRB (Federal Reserve Bank)	The SNA guidance here is more stringent in that is restrict classifying as a deposit if included in broad money, but the MFSMCG is more open on that interpretation. Additionally, SNA guidance includes loans as possible classification, whereas the MFSMCG does not. Please clarify conditions to treat as deposits and expand upon the circumstances in which classification as loans is preferrable to accounts receivable/payable, and vice versa.
(no organisation)	'How should funds that investors place in stock trading accounts to buy and sell stocks be classified? Are they considered as deposits or some other financial instrument? Guidance on how to record these funds should be added if it has not been done.' • US FDR agreed that guidance on free and clear cash/deposits held in brokerage/trading accounts of nondepository institutions is needed • INDEC also agreed Paragraph 25.174 - actually, many brokerages also charge explicit commissions for trading in these financial instruments, so does this mean the investors are paying an implicit and explicit fee for trading

	in these instruments? If yes, this paragraph and other relevant parts of the 2025 SNA should mention this. CPI and SNA manuals lack guidance on how to treat and classify the miles and points associated with loyalty programmes. ‘Given the possible impact of these programmes on various types of macroeconomic statistics, there is a need to assess how to classify the miles and points associated with them and record the corresponding transactions and flows. For example, if they are considered as financial instruments, this chapter should discuss them. If it is too late to include the treatment of miles and points associated with loyalty programmes in the 2025 SNA, this topic should be included in the post-2025 SNA research agenda. This will inform users that the national accounts community is up to date on developments in the economy and society.’

2025 SNA Chapter 29: Financial Corporations

Advice Paper

NSCASE(24)13

Please note that the UK comments and this paper were based on version 7 of this chapter (here) rather than the version in the full draft

Executive Summary

1. This new chapter discusses in detail the financial corporations' sector and its subsectors within the system of national accounts. The chapter focusses on the activities of traditional deposit taking entities, along with the activities of non-bank financial intermediaries, such as investment funds, insurance corporations and pension funds, and security and derivative dealers, central clearing counterparties and specialised financial intermediaries. The chapter discusses the use of Nationality based statistics to assess the financial and economic risks of MNE's and non-depository financial MNE groups with significant national and global operations.

2. Chapter 29 was published on 6th May 2024. A link to the full draft chapter can be found here. The UK submitted a response on 31st of May 2024 which is provided in Annex 1.

3. This paper identifies areas of concern to ONS in the current draft of Chapter 29.

4. ONS asks NSCASE Committee members to review the content of this paper. Members are also invited to identify any areas of concern to them which are not mentioned in this paper.

5. Specifically, the ONS would like the Committee's views on:
   a. **Whether the Committee agree with the UK response to the global consultation.**
   b. **If there are any areas of concern the Committee have in relation to the chapter that the UK did not raise.**

6. As with previous 2025 SNA Chapters brought before the Committee, the official consultation deadline for this chapter has passed and therefore the opportunity to feed back to the paper editors is not possible at this stage.

Introduction

7. This paper sets out the ONS position in relation to the draft version of the 2025 System for National Accounts (SNA) Chapter 29: Financial Corporations.

8. This new chapter includes parts of what was covered in 2008 SNA Chapters 4 (Institutional units and sectors) and 21 (Measuring corporate activity). It expands on the 2008 SNA Chapter 6 (The production account), Section F, by referencing the relevant content of the manual Financial Production, Flows and Stocks in the System of National Accounts. The new chapter offers no change to the statistical principles underpinning the core measurement of Financial Corporations from SNA 2008.

9. The Chapter dovetails with the updated 2025 SNA Chapter 28 on Non-financial corporations, which covers, in addition to non-financial corporations, more general aspects of corporations (e.g., demographic aspects of corporations). Chapter 29 references, but does not duplicate, material in Chapter 28. It also ties in with 2025 SNA Chapter 5 on Institutional units and sectors.

10. In Annex 1 the ONS provides specific comments on paragraphs within the chapter. These were submitted to the UN as part of the international consultation on the 31st of May 2024. Annex 2 supplies a series of global responses.

11. The development of the SNA 2025 and its drafting discussion was set out within a paper "SNA 2025 Background & SNA Drafting Principles" presented to NSCASE in January 2024, and revised considering the discussion that took place.

12. Below ONS provides a brief background of the chapter for colleagues who have not had the opportunity to read it. If you have read the chapter skip forward to the ONS concerns section.

Background

13. The Chapter provides an overview of financial corporations (Section B), discusses the activities of the various subsectors of financial corporations (Section C), presents supplementary breakdowns on non-bank financial intermediaries (Section D), and discusses links to Monetary and Financial Statistics (Section E). The content of the Chapter complements SNA Chapter 5/BPM Ch4, section E of chapter 25 and Chapters 26 and 28.

14. This new chapter goes beyond the straightforward listing of financial institutions, as in SNA 2008, adding descriptive analysis of the functions of these different institutions. The chapter also discusses statistical issues specific to sub-sectors, including, for example the measurement of output. The notable addition in this chapter from SNA 2008, is the increased emphasis placed on capturing the activities of non-bank financial intermediaries, or those institutions which make up the shadow banking industry.

Overview of Financial Corporations

15. The Financial corporations sector is made up of nine “core” subsectors, including the central bank, deposit taking corporations except the central bank, money market funds (MMF), non MMF investment funds, other financial intermediaries except insurance corporations and pension funds, financial auxiliaries, captive financial institutions and money lenders, insurance corporations and pension funds.

16. Entities in these sub-sectors are engaged in three broad types of financial activities, including financial intermediation, auxiliary financial services and the provision of financial services not available on open financial markets (for example, via captive financial institutions). Measurement of these activities comprises the core accounts for Financial Corporations.

17. Entities involved in Fintech are deemed not to be part of a separate institutional (sub)sector. NSI’s are encouraged however to compile supplementary breakdowns for subsectors, if the impact of such financial innovation is significant and if this activity can be separately identified. If the entity providing a specialised financial platform has legal status, then they would be classified as a separate statistical unit within financial auxiliaries (S126). This can be the case with crowd funding platforms and peer-to-peer lending platforms.

Financial Risk Management and Nationality-based statistics

18. The guidance advocates the production and use of supplementary statistics, such as Nationality-based statistics for measuring corporate risks associated with MNEs and non-depository financial MNE groups with significant national and global operations. These latter entities make up a significant proportion of what is known as the unregulated “shadow” banking industry.

19. The “nationality perspective” was developed by the Bank of International Settlements (BIS), which made use of both domestic and globally consolidated banking data to better understand the global banking system as well as national banks’ exposures. In addition to providing a global picture of balance sheets, the approach allows for a more detailed analysis of counterpart country information or geographical exposure of balance sheets. This helps in gaining a broader understanding of the supply of credit, both domestic and foreign sourced; the uses of funds; funding risks associated with currency exposures and maturity risk (i.e., mismatches between assets and liabilities).

20. Viewing MNE’s, singularly or as an aggregated group, through a nationality lens provides a greater understanding of corporate risk inherent in and across economies. The nationality perspective puts emphasis on international inter-corporate ownership and control in corporate groups as well as geographical counterpart relationships and can shed light on differing types of singular and systemic financial and economic risks.

21. Given the large number of non-depository financial MNE groups with significant national and global operations, combined with the need for enhanced financial stability monitoring, a case is made to extend the nationality approach beyond deposit-taking corporations to the other financial corporations' subsectors. Such efforts can help enhance the measurement of risk.

Non bank financial intermediation

22. Despite increasing funds running through these entities, financial stability risks of NBFIs are not well understood. Many NBFIs are loosely associated with banks and other financial intermediaries making them more vulnerable to systemic risk.

23. The statistical community responded on how to better capture non-bank financial intermediation (NBFI) in macro-economic statistics as part of the G20 Data Gaps Initiative (DGI), specifically, recommendation II.5 of DGI-II. It was acknowledged that the standard breakdowns of the financial corporations sector as well as the standard breakdown of financial instruments in the sequence of economic accounts may not be sufficient to identify associated risks within non-bank financial intermediaries. It was therefore recommended to introduce additional supplementary subsector and instrument details. ONS has been seeking to address this increased sub sector and instrument detail through the introduction of its extended Financial Sector Survey.

24. The Chapter concludes by covering the need for greater financial sub sector information on entities involved in non-bank financial intermediation, including for example, supplementary statistics, covering Money market funds and Non Money Market Investment Funds. Similarly, the need for greater detail on Other Financial Intermediaries, such as Financial corporations engaged in the securitisation of assets and Specialised financial corporations is discussed, as well as the need for greater detail on insurance companies and pension funds and financial instruments (Chapter 25, selected financial instruments).

ONS Considerations

25. ONS is comfortable with the content of this Chapter, save for some minor definitional details and inconsistencies between SNA 2008 and SNA 2025.

ONS Concerns

26. ONS has no significant concerns with the statistical principles laid out in this new chapter.

Annex 1 – Specific Paragraph comments

27.1 – General comments - We are broadly content with this chapter. The structure of the chapter puts Fintech and alternative organisational structures relatively prominently, despite Fintech being a breakdown that is only asked for if considered significant and if the activity can be separately identified and the alternative structures are suggested as supplementary statistics. With this, it might be helpful to focus on the core SNA statistics first. The Fintech section would also follow on more logically after the subsectors given that it references those subsectors.

27.2 - Money Market Funds (MMFs) – 29.53 While it is true that MMFs invest primarily in MMIs, they do also invest in long term debt with short residual maturity (this is mentioned in ESA10, but not mentioned in SNA25).

27.3 – MMFs - 29.53 states that "Investment Trusts" can be grouped in S.123 but 29.54 states "MMFs are open-ended funds". Since investment trusts are closed-ended funds they cannot be MMFs. Additionally, 29.59 states that 'closed-ended funds only apply to non-MMF investment funds.

27.4 - Non-Money Market Funds (NMMFs) - 29.58 states that 'open-ended funds are sometimes referred to as mutual funds'. The UK think the term 'mutual funds' is broader than just open-ended funds. ESA10 doesn't define mutual funds but does say

- Investment funds are also called mutual funds, unit trusts, investment trusts, and undertakings for collective investments in transferable securities (UCITS); they may be open-ended, semi-open or closed-end funds. (ESA10 5.161)

Annex 2 – Global Responses

Japan National Accounts	"29.69: It is stated that "Crypto asset exchanges and trading platforms" are included in financial institutions. As a consequence of this, not only derivatives transactions of crypto assets (margin trading, etc.) but also commissions received by exchanges or platforms for physical transactions of crypto assets are to be treated as financial services. If so, this should be clearly stated in section B of this chapter (para 29.11 onwards), which explains the production of financial services. 29.77: It is stated that independent insurance agents are included in not insurance companies, but financial auxiliaries. On the other hand, are insurance agents dealing only with specific insurance company's products included in the insurance company sector?"
Czech Statistical Office	"The CZSO understands the effort to extend detail of the macro statistics. However, in contrary the most of the countries are trying to decrease administrative burden of respondents and expenditures of the state budget. Submitted requirements for more

	disaggregated definition of the financial sector and financial instruments seems to be against that. Moreover, greater detail in macro statistics may not always result in better information, as macro stats is affected by a number of model calculations and estimates.”
Eurostat	“We very much appreciate the use of sector codes throughout this chapter as it helps the reader understand when an SNA / Institutional sector is meant and when not (see comments regarding ‘Banks’). It would be advisable to extent this logic also for transactions and stocks, especially when discussing implicit services. When discussing implicit services (formerly known as FISIM) it is important to be very precise when discussing SNA interest (D.41) or ‘bank interest’ (D.41g). A lot of jargon is used that seems not explained (or sometimes not needed). For example: ‘Liquidity transformation services’, ‘Universal bank’, ‘all-purpose bank’. Sometimes two words are used for the same phenomenon: isn’t ‘counterparty risk’ the same as ‘credit default risk’? Also ‘Special purpose units’, SPE’ and ‘SPE-type captive’ is used without explaining if there is a difference. Sometimes a judgment is made about (low) risks/safety (see for example on mixed/balanced funds in **paragraph 29.55**) or’ attractive rates of return’ (**paragraph 29.61**). Such judgments seem particular inappropriate in a system that is based on market valuations.” “We take note that the delineation between S.12 and S.13 is not touched upon in this chapter or even referenced to. This delineation is particularly important for bank re-structuring agencies (**paragraph 29.65**), SPE and ‘Conduits, intragroup financiers and treasury function’ (**paragraph 29.73**). In general, this chapter aligns rigidly activities to sectors. Although activities (as defined in ISIC) can help sometimes, it should not be detrimental, rather for S.12 and S.13 delineation the question who bears the main risks and rewards is most relevant. As such the chapter seems to deviate from ESA practice.” “**Paragraph 29.1:** the first sentence of this chapter reads “*Financial corporations have taken on increased importance over the years, in many economies, reflecting both growth and diversification*”. It is not clear what is meant with ‘importance’ (share in GDP?, but this seems to contradict paragraph 29.11) and can be seen as expressing an opinion, which should be avoided. In fact, the whole paragraph should be better eliminated, as it is unnecessarily verbose and does not contain useful guidance on compiling national accounts. **Paragraph 29.4** reads: “*Section B provides an overview of financial corporations and summarizes the impact of technology on the*

	sector; it also touches upon domestic consolidation and nationality-based statistics." First, 'domestic consolidation' seems not used in the SNA sense of consolidation but rather in the business accounting way (i.e. consolidated accounts of the group). SNA should strive to have one term for one phenomenon. Second, this term 'nationality-based statistics' is new and we understand it refers presenting accounts of foreign entities with domestic control (MNE). Again it is confusing as core *national accounts* is not *nationality-based*. At the very least a brief explanation of domestic and nationality should be provided / referenced to." "**Paragraph 29.5** the first sentence seems to have a problem (see underlined): "*As noted in Chapter 5, the financial corporations sector is made up of all resident corporations that are principally engaged in providing financial services to other resident or non-resident institutional units, including insurance and pension funding services, to other institutional units*". The underlined bit should be eliminated. (noted also by other commentators)" "In **paragraph 29.7** we read "*Financial corporations are allocated to subsectors of the financial corporations sector based on their primary activities, considering and sometimes adjusting for regulatory data constraints in different jurisdictions.*" This sentence seems multi-interpretable. Is meant that 'primary activities' are dependent on the jurisdiction or is meant that sectorisation should not depend on the jurisdiction (we agree with the last interpretation). Also it seems that 'principal activity' is meant (again wording throughout SNA should be consistent and one term should be used for one phenomenon)." "In **paragraph 29.19** it reads "*Supervisory authorities may charge membership fees*". As this is under *Explicit financial service charges* it might give the impression that these are always part of intermediate consumption (P.2) of the 'member' while in effect, quite often they may constitute a tax as it is compulsory and unrequited, and 'membership' is not voluntary and the units levying such compulsory, unrequited fees (i.e. taxes) should probably be better classified in the general government sector or the operations rearranged. **Paragraph 29.20** on reference rates for implicit financial services: it could mention that negative production / consumption is to be avoided as this is hard to interpret. **Paragraph 29.23**: we read the sentence "*Credit default risk should, in principle, be excluded from implicit financial services on loans and deposits but this is typically not the case. Therefore, any countries that can manage to make this adjustment are encouraged to compile unadjusted supplementary measures for international*

	comparability" It should be explained that SNA interest, D.41, as well bank interest D.41g, should reflect all types of risks, (e.g. opportunity cost, expected inflation (eroding the return), default, maturity of the asset and view on government or central bank intervention on interest rates)." "**paragraph 29.28** "*If the entity providing a specialized financial platform has legal status, then they would be classified as a separate statistical unit within financial auxiliaries (S126)."* How is 'separate statistical unit' to be understood. It cannot mean institutional unit as it is not enough to simply have a 'legal status'. Also it cannot mean (local) Kind of Activity Unit as such activities are not separately identified in ISIC." "**Paragraph 29.30** it is recommended that public financial corporations are compiled with an of which item '*part of a domestic multinational corporation*'. This seems a contradiction (that we commented before). As these public corporations are under government control (per definition) how can they be part of an MNE group that is also determined based on control?" **"Paragraph 29.48** discusses 'banks' in the part on *Deposit-taking corporations except the central bank (S122)*, so a classification in S.122 is expected. However, when reading the paragraph closer, it becomes murkier. For example this sentence makes clear that (parts of) banks are not S.122: "*Some of these banks have evolved over the years, expanding their business line through mergers and acquisitions, and can also offer non-traditional services such as investment funds as well as insurance from non-consolidated units which are typically classified in other institutional (sub)sectors*". More importantly it should be discussed that the sector delineation between S.12 and general government (S.13) should not depend on the principle activity (ISIC) but rather on who bears the main risks and rewards. To do this it is needed to recognise that for 'banks' the balance sheet (not the income statement) is the most relevant part of the accounts. As an example, defeasance structures that where government bears the main risks and rewards could be mentioned as part of S.13 even though such institutional units can be considered banks according to their activity (ISIC 64)." "In **paragraph 29.55:** The part "*these would be classified according to the principal activity (i.e., share of value added) and, as such, most of these funds would likely not be included in the financial corporations sector*" needs some more reflection. Is meant that value added is based on the concepts of production and intermediate consumption, and as foreign real estate is shown as equity stake there is no value added? If this is meant it should be clearly stated as this is a clear argument for looking at risks and

8

	rewards instead of value added for the classification of these institutional units (not KAU). On hedge funds it is written "*Hedge funds are heterogeneous schemes, with high minimum investments balanced with light regulation and a wide range of investment strategies in liquid assets (e.g., short selling, derivatives).*" What is meant with "*balanced with light regulation*", it seems rather subjective and is wording that should better be avoided. Also is fund synonymous to scheme (similar to social security fund/scheme)? On mixed/balanced funds it is written "*Mixed/balanced funds with a wide variety of investments – stocks, bonds and other investments (including crypto funds and credit funds). Balanced funds offer a combination of safety, income and holding gains.*" It seems not wise to say that these funds are providing safety. Especially crypto has proven to be very volatile. "In **paragraph 29.61** it is claimed that financial corporations engaged in the securitization of assets provide *attractive rates of return* to its investors. This judgment seems inappropriate in a system that is based on market valuations, i.e. where price are set following supply and demand and both the buyer and the seller voluntarily engage in a transaction." "In **paragraph 29.73** seems not correct for the last bullet: "*Conduits, intragroup financiers and treasury functions when these functions are taken on by a separate institutional unit. Conduits (often SPEs) typically refer to entities that raise funds, which could be in the form of debt securities, shares, or partnership interest on open financial markets for other affiliated corporations or for various types of public projects. Often the conduit's liabilities are guaranteed by the parent company or government*." This seems not part of S.127 but S.13, if the entity is considered S.127 then the government operations (and debt) should be rerouted. All in all it is very dangerous here to classify entities simply by how they are called (the form) instead of who bears the risks and reaps the rewards (the economic substance)." "In **paragraph 29.85** it reads "*Constant net asset value funds, as the name suggests, aim to maintain a constant value. These are accounted for at amortized cost. This approach values the assets at amortized cost. This amounts to purchase price plus/minus the discount/premium linearly over the life of the asset. However, these funds are subject potential losses and increases in operating costs.*" As SNA is an accounting system that is distinct from business accounting, if in business accounting (such as IFRS) it is allowed to use accounting tricks to have constant valuation, the SNA should deviate from this practice to reflect the market/economic reality.

UK Statistics Authority

	Now it seems that SNA proposes to deviate from market valuation, which seems a wrong message to convey. In **paragraph 29.88** regarding 'Financial corporations engaged in the securitisation of asset' it is stated that "*overall, investors know little about the quality of the assets being securitized*". Is this true? Isn't it in the interest of the investor to know what it invests in? Does this statement mean that credit rating agencies are not to be trusted?"
Independent contributor	"The chapter reflects the increased importance of new financial activities on the structure and functions of financial corporations as they channel funds through an economy, and adds important sections on supplemental data on financial corporations and interactions with monetary and financial statistics and monetary policy. However, there are three areas where I believe further discussion is needed; • Digitalization of economies and cryptoassets that have fostered many new types of financial corporations and changed the footprints of financial business. • Islamic finance, as a significant variation in financial corporation behavior and structure. • Financial soundness and macroprudential analysis, which introduces new perspectives on corporations and their economic impacts and risks."
Swiss Federal Statistics Office, National Accounts Section	"29.13. Another example might be Activities of head offices of financial companies and of family offices which often also provide non-financial consulting services. 29.16-29.24 Explicit and implicit financial services: No comment is made on the investment fund intermediation service. This is implicitly measured by the sum of fund costs (which are not explicitly billed to investors). We believe it is worth mentioning this implicit production as well. 29.23. These clarifications on the different calculation methods of the reference rate and the treatment of credit default risk are extremely useful." "29.55 Real estate investment funds: it is stated that real estate funds that directly hold real estate as their main asset should not be included in the financial companies sector. This appears to be a new definition of non-MMF investment funds compared with §4.108 of SNA2008, which states: *The proceeds are invested predominantly in*

	*financial assets, other than short-term assets, and in **non-financial assets** (usually real estate).* In Switzerland, many investment funds invest directly in real estate. They are subject to the same legislation as other investment funds, and raise funds by issuing shares to the public. If these real-estate funds are no longer financial corporations, but (probably) non-financial corporations, does this mean that, from now on, investment income attributed to shareholders of investment funds (D443) will also have to be recorded as payable by the non-financial corporations sector? Please add a few further explanations on the new treatment of real estate funds that hold real estate directly."
The Netherlands Bank	"Holding companies make up a large part of sector S.127. However, they do not meet the definition provided in paragraph 29.5. Holding subsidiaries is not a financial service and is also not a financial activity. We believe that the definition for S.12 in paragraph 29.5 should also cover this important group of entities. This holds also for a less relevant type of companies: credit rating agencies. These companies do not provide financial services. In general, we think paragraph 29.5 should be extended so it covers all types of entities in S.12." "29.55 It is quite clear that funds holding domestic real estate directly are not part of the financial corporation sector. However, we think it should made more clear how to record funds holding foreign real estate directly. We do not see any economic difference between directly owned domestic and directly owned foreign real estate, so we think they should be treated the same. Something users would probably expect. The artificial notional unit that is created in the case of directly held cross border real estate, does not change the fact that directly held real estate, whether foreign or domestic, is in essence the same. In general, we regret that funds with (domestic) real estate are classified as S.11. This is probably not what users expect. This will be an enormous shift from S.124 to S.11." "29.71 states that 'Some head offices may be consolidated with the financial corporations that they control and would, therefore, not be institutional units to be classified in this subsector'. This 'consolidation downwards' is not intuitive unlike the usual upward consolidation, which is also well explained (in case of artificial subsidiaries). This downward consolidation deserves further explanation in our opinion. 29.72 states that S.127-entities provide financial intermediation services. However, is 'holding subsidiaries' a financial service (for example SG1 or SG2)? We think not. In 29.73 is written that their

	principal activity ('activity' is in this context a synonym for 'objective') is owning the group **without** providing any other services. If no services are provided, the definition should be extended so that holding companies are covered. 29.73 states that S.127-entities may hold intellectual property rights. Until now our view has been that entities that have economic ownership of intellectual property rights should be classified as S.11. We are (1) surprised that S.127-entities may also hold intellectual property rights (where/when is this discussed and decided?) and (2) it is not sufficiently clear to us when the holder of intellectual property rights falls in sector S.11 and when in S.127, despite two examples that are given."
Australian Bureau of Statistics	"The section on **Nationality-based statistics 29.31 - 29.36** is a departure from some of the core principles of the SNA, and highlights the need to develop a methodology to extend the core accounts. Suggests to place in an appendix discussing future work program, or at the end of the chapter." "29.55 - This appears to be a change from the 2008 SNA guidance. Australia already maintains the new distinction for REITs as outlined in the 2025 SNA."
Israel Central Bureau of Statistics	"29.5 (b) Regarding classifying non-profit institutions that are market producers of financial services as Financial corporations - If the unit is mainly a non-profit institution, should it not be classified as an NPI and if its main activity is providing financial services as a market producers, it would not be classified as a non-profit institution to begin with? Either way, the phrasing seems to be unclear what type of unit falls into this description. 29.6 In paragraph 29.14, financial intermediation involves "financial risk management and maturity and liquidity transformation, where the institutional units incur financial liabilities [...] **or uses own funds**", while here Financial intermediaries are described as "institutional units that incur liabilities on their own account for the purpose of acquiring financial assets". Assuming 29.6 includes the main characteristics of Financial intermediation, 29.14 adds information, perhaps revise 29.6 to say "institutional units that acquiring financial assets, usually by incurring liabilities on their own account", so as to make clear both paragraphs aren't contradictory."
Mexico INEGI –	"Regarding the topic of implicit financial services, in paragraph 29.23, where it is mentioned how to calculate the reference rate, it would be important to refer the reader to the manual of financial production, flows, and stocks in the SNA, which in chapter 3 contains a very useful practical example of how to calculate the

	endogenous reference rate. It should be noted that this chapter requires revision because central banks now do not produce implicit financial services.”
Deutsche Bundesbank	“Our first concern is of conceptual nature: Since domestic real estate is treated as non-financial asset, and cross-border real estate as financial asset, the sector of the investing entity would depend on the location of the real estate. In the case of summing up national contributions to a geographic aggregate (e.g. euro area), a part of the cross-border area from a national view turns into domestic, causing the entity to switch sector from financial to non-financial. How should this be implemented technically? Also how would this entity be classified in a business register such as RIAD? Specifically, on paragraph **29.55**: In our perspective, entities that look and behave like investment funds should be classified as such, independent of their type of assets. Their purpose is to match investors with assets by acting as an intermediary incurring liabilities by themselves, which is clearly a financial service. A treatment as non-financial corporation would be rather counter-intuitive, especially to data users not that familiar with the details of the SNA. Adding to that confusion, 29.87 of SNA draft chapter 29 lists “real estate investment funds” as subsector of investment funds, while the key information that this fund type excludes directly held real estate is placed in a different subchapter (29.55). More practically, the proposed treatment would also raise the question on how to treat the shares issued by these entities. Since investment fund shares can only be issued by “true” investment funds by definition (at least following the current SNA), they would have to be classified as other equity, which isn’t usually captured by ISIN-based securities holding statistics (such as the SHSS in the euro area). Even assuming these real estate funds might still be part of investment fund data collections, the information about who holds their shares will get lost or at least suffer substantial quality loss. Therefore, we would rather maintain the classification of real estate funds as financial corporations as suggested in the Guidance Note F.1.”
Banque de France	“29.55 We suggest keeping real estate funds in the financial sector. Indeed, such funds are : • Often under the supervision of the same authority than the rest of the investment fund sectors. • Ultimately largely invested by households looking for diversification

	• Closely linked to other financial intermediaries such as insurance companies in particular in the context of unit linked life insurance contracts. • Acting as lessors rather than developers • Create specific financial stability issues as they make long term investments backed by non or not so stable financing provided by the selling of their shares Lastly, the proposal seems to contradict the proposals in the F1 guidance note and the breakdown of funds proposed by the Data Gap Initiative. At least, should the new SNA provide flexibility to avoid classifying real funds as described above in the non-financial corporations sector.”
Statistics Canada	“In S125: 29.63 **Corporations engaged in lending or leasing** cover a variety of types of financial institutions. These include the (non-consolidated) sales finance subsidiaries and associates of various retailers such as those involved in the household goods and automobile financing and leasing industries, personal financing corporations (e.g., consumer loan companies), and other companies offering various types of commercial financing and/or leasing. This subsector also includes credit card companies. Entities such as “buy now pay later service providers” might be included here, if they are institutional units and financial corporations. In S127: 29.74 Various types of lenders that provide loans through own funds or through a sponsor are classified to this subsector. **Moneylenders** are lenders that can undertake different functions, including making loans, providing cheque-cashing services, money orders, etc. Loans are often at relatively higher rates of interest. The classification of money lenders to an entirely different top-level institutional sector does not make sense for us. The criteria that they use their own funds is unclear given that money is fungible and both banks and other financing companies may use a mix of funding sources from deposits, equity issuances, loans from a parent or third party, or debt issuance. For example, payday loan companies may offer some of the services listed for moneylenders, but in principle are either making few loans and are thus financial auxiliaries or are making mainly loans and would be better classified to **Corporations engaged in lending or leasing**.

	The value of this distinction could be made clearer as it make be more practical to group money lenders with S125.”
Statistics Sweden	“In general, institutional sectors consists of institutional units. But, it is unclear whether the proposed breakdown in table 29.1 refers to the institutonal units or the activities of institutional units. Funds are normally not institutional units since they lack the independece to decide on their investment policy. The breakdown of insurance corporations into life and non-life respectively will not be a full separation of the non-life and life policy schemes since insurance corporations may operate both kind of policy schemes. In the case of pension funds it is even more common that a pension insurance corporation operates both defined benefit and defined contribution pension funds as part of multi employer schemes. In this case we think the proposed breakdown is a dead end and should be deleted from table 29.1 and other relevant parts of the chapter. The strict breakdown into different kinds of pension schemes can be done by a further breakdown of assets/liabilities (AF.63) and the corresponding transactions. From the introduction (paragraph 29.79-29.82) and para. 29.83 we get the impression that the main aim of the proposed breakdowns is to provide data for monitoring and surveillance of financial market risks. We are of the opinoin that data for surveillance should be provided by other ways than be included in a statistical framework since the credibility of national accounts will be reduced if financial institutions hesitate to provide data needed for a good statistical description. We think the relevant paragraphs needs to be reformulated by excluding the reference to financial risk and rather refer to the economic performance of NBFI etc.”

2025 SNA Chapter 5: Residence, Institutional Units and Sectors

Advice Paper

NSCASE(24)14

Please note that the UK comments and this paper were based on version 7 of this chapter (here) rather than the version in the full draft

Executive summary

1. The aligned Chapter 5 of the 2025 SNA and Chapter 4 of BPM 7 summarises the conceptual and measurement issues arising from defining institutional units, and grouping them into sectors and institutional sectors.

2. Chapter 5 was published on 18th January 2024. The UK submitted a response on February 20th 2024 which is provided in the annex.

3. ONS asks NSCASE Committee members to review the content of this paper. Members are also invited to identify any areas of concern to them which are not mentioned in this paper.

4. Specifically, the ONS would like the Committee's views on:
   a. **Whether the Committee agree with the UK response to the global consultation.**
   b. **If there are any areas of concern the Committee have in relation to the chapter that the UK did not raise.**

5. As with previous 2025 SNA/BPM 7 Chapters brought before the Committee, the official consultation deadline for this chapter has passed and therefore the opportunity to feed back to the paper editors is not possible at this stage.

Introduction

6. The Chapter covers the key concepts of Residency and Population and provides advice on the definition and grouping of corporations, non-profit institutions and institutional units, into institutional sectors and sub-sectors.

7. The combined Chapters provide updates on the treatment of special zones, such as free trade zones, offshore banks and offshore financial centres. New guidance is also included on the classification of fintech companies within existing institutional sectors/sub sectors. In situations where countries have significant fintech industries, such as the UK, then an "of which" category can be introduced to reflect the importance of this industry.

8. When reporting external sector statistics (for example, to the IMF) countries are advised to produce more disaggregated institutional breakdowns for other

financial corporations as supplementary items. Within this finer detail, countries are asked to separately identify NFCs from households and non-profit institutions serving households and to introduce the ”of which” category for Special Purpose Entities (additional guidance is offered in the Chapter on the definition and treatment of these Entities) as supplementary items for deposit-taking corporations, for Other Financial Corporations and Non Financial Corporation sectors.

9. Below ONS provides a brief background of the chapter for colleagues who have not had the opportunity to read it. If you have read the chapter skip forward to the ONS considerations section.

Background

10. SNA 2025 Chapter 5 and BPM7 Chapter 4 provide guidance on the definition, description and grouping of institutional units which make up sectors and subsectors of the SNA/BPM. The first part of this combined Chapter discusses the key concepts of an institutional unit, its residence and economic territory.

11. The Chapter discusses the main principles for categorising institutional units to sectors. Section B provides guidance on Corporations, Section C covers non-profit institutions, while Sections D to H provide greater detail on the main institutional sectors, namely non-financial corporations, financial corporations, general government, households and non-profit institutions serving households.

12. The Chapter concludes by providing guidance on the treatment of transactions between residents and non-residents as part of the rest of the world sector. The final section of the chapter provides detailed guidance on the concepts of economic territory and residence.

ONS Considerations

13. This is a substantial chapter introducing new concepts (e.g. Special zones and Special Purpose Entities) into the national accounts. Data availability for measuring each of these new concepts may vary, so as a result implementation and methods may need to be bolstered to address these requirements.

ONS Concerns

14. ONS has raised several concerns regarding the drafting of this chapter, not least the length and complexity of its content, although the additional definitional detail on special purpose entities is well received. Further detail on the treatment of entities which are not considered as institutional units would be helpful, although the absence of this guidance does not pose a material

challenge to the implementation of the revised guidelines on Residence, institutional units and sectors.

Annex 1 - Specific paragraph comments

15. Figure 5.1: The UK have a minor comment that labelling is incorrect in bottom righthand side of diagram, dark blue box which feeds from “Is the unit controlled by the general government sector?” No –> box should be labelled” National **private** non-financial corporation which is part of a domestic MNE group.” This applies to both instances of this box.

16. Also, in relation to Figure 5.1, should the criterion for FCs versus NFCs better be expressed as ‘Does the entity *principally* produce financial services or non-financial services?’ Figure 5.1: Does the design of Figure 5.1 require re-examination? The decision tree logic represented in the two lower panels, for financial corporations and for non-financial corporations, respectively, is identical (which seems correct), but that is not well conveyed in the version of the diagram that is shown. It ‘looks’ different due to layout differences, which in turn arise because the diagram contains rather more content now than the equivalent but simpler diagram in the 2008 SNA.

17. In the high-level listing in section 5.41 of the sectors is mirrored by ESA, the UK would like more guidance on why the subsectors are not.

18. 5.3: The UK would question the use of the term ‘natural persons’ as opposed to just ‘persons’. We wonder if this is intended to reflect the legal-specific understanding of this term in English law, to distinguish natural persons from companies, but if that is the case, we doubt whether it is necessary usage for this chapter of the SNA, which makes obvious the distinctions between households and corporations.

19. 5.11: The UK note a minor comment that this paragraph states further information below, however no further information is provided on the subject until paragraph 253. Better navigation could be given throughout the chapter. 5.29 – 5.36: This section considers three dimensions of distinctions within institutional units other than households and non-resident, namely: market vs non-market producers; non-market producers as government versus NPISH; and financial vs non-financial corporations. Is there scope to review the clarity of how these paras are drafted?

20. 5.40: NPIs. Perhaps review second sentence, which inherits the expression ‘increasing interest’ from the 2008 SNA, and puts ‘civil society’ into explicit quotation marks.

21. 5.87 vs 5.170: These paras each touch on the classification of different ways of arranging securitisations. As a sense check, is it clear that they are consistent?

22. 5.125: The UK observes that the GZTT definition of an MNE does not appear in the chapter, but it does introduce the concept of control compared with influence. Based on its connection to guidance note D.9 on FDI AMNE reconciliation, the UK would appreciate that if this topic is not covered in this chapter, that it is covered elsewhere in BPM7.

23. 5.224: (On equivalised households, for income and wealth distributional analyses.) Unless it is a recognised term used by OECD or other authorities, the term ‘household head’ seems dated, carrying an unnecessary value statement. Could it be replaced by a more neutral expression, say, ‘first adult household member (14 and above)’?

24. 5.226: Only the top deciles?

25. 5.230 (j): ‘By sex or gender of…’ might be a less controversial wording here.

SNA Chapter 5 / BPM Chapter 4: Residence, Institutional Units and Sectors Global Responses

INSEE France	‘Figure 5.1: In practice, indeed, compilers will never be exposed to face a situation in which, having to take a decision on the sectoral allocation of an entity, they will have the choice between any of the possibilities offered by the sectoral classification. In other words, they will never be in the position to ask the first question – at the top left of the tree. First, what kind of entity is at stake at the starting point of the decision tree ? – one may note that, at the beginning of the tree, it is an entity, that becomes a unit at the second test, to finish as an entity when a corporation ! If this entity/unit has already been characterised as an institutional unit, it is very likely that a lot of interrogations have already be answered, since the concept of institutional unit is rather demanding. If, which is more likely, it is a statistical unit, the register from which it has been fetched will limit the possible allocations, depending on the nature of the register. More important is the implicit statement that the difference between the general government and corporations relates – only – to the nature of their respective productions – market vs non-market. It is a pedagogical mistake. As reminded in § 5.19, units classified in the various institutional sectors differ « from each other in that their economic

	objectives, functions and behaviour are different ». In this respect, it may be reminded that « government units are unique kinds of legal entities established by political processes that have legislative, judicial or executive authority over other institutional units » ; in other words, government units, at least at the level of states – national, regional or local – are primarily political entities, which corporations are not. According to § 5.178, the fact that government may engage in non-market production is quoted at the end of the list of their principal functions. Which does not lead to minimize the economic importance of the government's actions. In practice, an incertitude on the classification of some units, either as corporations or as government units, occurs only at the level of some public entities, of a limited size. A good example is provided by figure 2.4 (Decision tree for the classification of public entities) of the GFS Manual 2014.'
Banque de France	'Paragraph 5.164: We are surprised by the proposed new treatment of real estate funds and their classification as NFCs. This can have a major impact and raise difficulties in terms of compilations or proper understanding by users (especially if these entities are no longer distinguishable among NFCs). In our opinion, the issue has not been sufficiently discussed nor bas been the subject of public consultation. This classification contradicts the guidelines notes F.1 and F.6 where real estate funds are a sub-category of Non-Money Market Funds (and Data Gap Initiative classification). The classification should therefore either be rediscussed or the status quo should be maintained until further discussions are held. On the underlying issue, it seems to us questionable to qualify them as non-financial corporations since their shares are held by households which look for diversification of their investments. Besides, they are often offered by insurance corporations in the context of life insurance activities, regulated and under the supervision of the market authority at least in France. Finally, the outcome of the assessment of the "main activity" required by paragraph 5.164, on which depends the boundary between funds and NFCs in this case, assumes that the necessary information would be available, and could change over time. This could entail artificial instability in the classification. There may in fact be entities dedicated to holding, and renting out, dwellings and/or commercial property that it is legitimate to classify as non-financial corporations. Perhaps a boundary can be drawn to keep as non MMF funds entities that: • offer a collective investment

	• and whose objective is investing capital raised from retail and professional investors (or similar properties).’
Statistics Sweden	‘The institutional unit in the corporate sector should be the enterprise and an enterprise consists of one or several legal units and in some cases these units are not incorporated but still have common features. The recommendation that head offices are institutional units of the own merit if they are incorporated is particularly challenging since there exists head offices that have no productive activity and only serve their subsidiaries and charge them fees for the administrative cost they have. Such units should be included in an enterprise unit together with their subsidiaries and preferably consolidated with them. The discussion of head offices and holding companies lacks clarity. The borderline between the financial sector and households and NPISH and governments respectively is unclear. Still some units that only for a few years appear in the legal form of an estate are to be included in the financial sector with all its activities (forestry, agriculture etc.) even though they for all other years are part of the household sector. Family trusts and family foundations that serve more than one household but no units outside the household sector should be included in NPISH and not in the financial sector which is currently the recommendation. The same goes for government wealth funds and similar units. The current sub-sectoring of the financial sector is based on activities and not primarily on the economic behaviour. This is more of an activity classification based on ISIC rev. 4. Some units in financial sub-sectors, notably investment funds and captives do in many cases not have independence of action and are governed by other units like corporations owning several funds etc. We understand that the reason for using the institutional sub-sectoring is due to interest of grouping the balance sheet of these units together. In our view this is more of a thematic accounting framework and does not in principle belong to the standard breakdown of institutional sectors.’
Austria National bank	‘Paragraph 5.85. Especially the last bullet point of this paragraph is changing the point of view of classifying holdings in particular and institutional units in general. In the current statistical understanding a pure holding is not an institutional unit as there is no operative activity, nor no or little employees given. Once a holding is identified, an additional institutional unit test must be undertaken for a correct sector classification. The last bullet point although states, “For holding companies **wholly owned by a single resident unit, “no employees and no remuneration**

6

	of employees" <u>is not a sufficient criterion to conclude that there is a lack of institutional independence</u>; however, it can be used as an indicator to consider units for further investigation to consider their lack of independence." From this it would follow that classifying holdings, the proof whether characteristics are given for an institutional unit (i.e., "being owned by non-residents" or "multiple parents") are no longer sufficient. Instead, statistics producers would need to proof if this holding is not an institutional unit, while additional recommendations which data sources to use are missing. Furthermore, it is not plausible that the description of institutional units as such will not change, while there is a differing paragraph for the treatment of holdings/head offices. Therefore, we would recommend to delete the last bullet point, otherwise the systematic of institutional unit identification and classification will be blurred and a lot of reclassifications will be the consequence.' 'Paragraph 5.87, we opt for deleting this paragraph as it is strictly speaking misleading. It is not clear whether it should discuss a certain case of SPEs (with a resident parent) or if it should discuss entities that are not SPEs. In the first case, a detailed discussion of the topic would be needed instead (is the resident parent a holding company or an institutional unit with employees and production?). In the second case, no further discussion is needed – or even misleading - as the principles for defining SPEs are clearly described in para 5.86 and in the appendix.'
IMF short-term expert	'Paragraph 5.18 d could benefit from a discussion on the resident notional entity that is created to take ownership of Land, other natural resources, buildings, and immovable structures in the economic territory. The paragraph could also refer to other sections of the document that elaborates on the creation of a n[a]tional entity that owns these assets.'
Israel	'In 5.3 and later paragraphs "persons" is changed to "natural persons". The concept "natural person" is new to SNA, does it come from banking or legal definitions? There doesn't seem to be "legal person" in SNA, so perhaps the concept "natural person" is not needed. In population statistics they talk about individuals. A definition should be given.'

Germany FSO	'In general, the extensive division of sectors into subsectors is very ambitious. This applies to the breakdowns of non-financial and financial corporations based on control and their further subsectors (multinational enterprises and special purpose entities) as shown in table 5.1. It should be mentioned that most important are the sectors on the two-digit level. Additionally, for identifying subsectors of households based on levels of income and wealth or other criteria sufficient data sources have to be available (Par 5.224 following). Most important for the success of such a sector breakdown is a comprehensive micro data basis. Without high quality micro data, the micro-macro linking can result in statistical artifacts without reliable content. Therefore, the methodology should consider the data availability. Hence the suggested methodology can only be a recommendation which shows a maximum of possible breakdowns. It can't be binding in the foreseeable future. If the new term "natural" person / group of "natural" persons is now preferred, it should be used consistently in this chapter (see e.g. par. 5.104) as well as across the SNA. E.g. chapter 34 Measuring well-being and (annotated outline of) chapter 16 Labour do not seem to use this term. However, we do not see a need for this change. Are terms "a single natural person" / "an individual" / "an individual person" synonyms?' 'Unless appropriate data are captured by BoP, we doubt that fiscal transactions stemming from SPE's abroad controlled by national government as described in 5.102 can be properly identified. Therefore, an imputation may be purely arbitrary in practice.'
Deutsche Bundesbank	'5.164: We don't see the need to classify real estate funds as S.11. We should rather maintain the classification as S.124, as suggested in the Guidance Note F.1. First, we don't really see in which way data users would benefit from the reclassification. Intuitively, one would expect shares of real estate funds to be included in the instrument F.52, which can only be issued by S.124. Why introduce an extra layer of complexity? Second, the established look-through analysis methods for looking through F.52 issued by S.124 would only produce an incomplete picture of indirectly held assets. Third, why should the type of asset determine the sector of the fund? Real estate also generates income, just as typical financial assets.'
INDEC Argentina	'Regarding the determination of the household, we consider it very relevant to highlight that three conditions must be met: sharing living accommodation, sharing a portion of income and wealth, and consuming certain types of goods and services collectively. However, the definition

	presents ambiguous aspects regarding the percentage of income or wealth that should be shared, as well as the importance of collective consumption. Additionally, we consider it important to include specific criteria or practical examples to aid in identifying the household. Regarding institutional households, we suggest including a more precise definition. For example, referring to individuals who reside for extended periods in collective housing where they do not share income, wealth, and consumption. This situation may be linked to health, judicial, labor-related conditions, etc. For instance, natural persons staying in hospitals, retirement homes, convents, prisons, labor camps. Collective housing is defined as accommodations intended for individuals living under an institutional (non-family) regime, regulated by administrative rules of coexistence. It is worth noting that in collective housing, "households" that meet the criteria established in the first part of the paragraph may also be accommodated, such as administrators, caretakers, or guards, depending on the specific characteristics of the collective housing.' 'We suggest including, after paragraph 5.26, a diagram that allows visualizing the relationship between the different institutional units and institutional sectors in order to avoid confusion. This is especially relevant, for example, in the case of the productive activity of unincorporated households, which may be considered quasi-corporations, and the different functions performed by NPISHs, which implies that they are classified into different institutional sectors.'
Eurostat	'Box for BPM7: It would be better to avoid references to handbooks that do not undergo the same type of consultation procedure as the SNA.' 'Addition to 5.18d is an appreciated clarification. On top of this change, licences should be added, establishing further clarification of 5.18e. To 5.18e, the following should be added "Extraction of subsoil resources **and exploitation of licences** can only be undertaken by resident institutional units. An enterprise that will undertake extraction is deemed to become resident when the requisite licences or leases are issued, if not before (**such as in the case of exploration licences**)". 5.20 and 5.21: The recording of (collective) consumption expenditure should be avoided for the central bank. This could have been achieved through imputation of a tax and recording of collective consumption in the general government sector. In any case, the recording of consumption expenditure should be clearly limited to core central bank functions, which is not the case with changes proposed to 5.20-5.23, such that the distinction between S.13 and S.121 is blurred. In this context, a much more severe issue arises in figure 5.1 "does the unit relate to the central bank?". This could be taken to imply that any non-

9

	market entity in some way related to the central bank could be classified in the financial corporation sector. That should be avoided in order to maintain some sense of international comparability. 5.26 contains highly appreciated clarification that technological innovation in providing the same product does not change the industry and product classification nor the sector classification. However, use of specific terms such as "Fintech", for which it is hard to find any meaningful definition should be avoided. Figure 5.1: Can the classification scheme arrive at a public corporation that is non-resident? The problem arises from changing the order of the schema. I.e. 2008 SNA figure 4.1 does not suffer from the same problem. It seems not necessary to add "central bank" in paragraph 5.31, 5.33, etc. This is fully sufficient in 5.30. However, the definition of central bank activity is needed so as to prevent lack of harmonisation of what is included in S.121 and S.13. In this sense, the last sentence in 5.29 needs to be rephrased much more cautiously. 5.42 and table below: Why should this be included in the SNA? The table numbering 4.2 seems wrong. What is meant with "backward compatibility with the BPM7 classification"? Is perhaps BPM6 meant? What is meant with "The full institutional sector detail is required for external accounts to be fully integrated with monetary, flow of funds, and other financial data."? How could national accounts and balance of payments data be fully integrated with sectorisation employed in primary statistics not subject to statistical (harmonisation) adjustments? 5.44 seems to clearly advocate the debtor-creditor principle, which is much appreciated, after 2008 SNA was somewhat ambiguous on the issue.' '5.82 ISIC reference is outdated or will be outdated.' '5.137 "Most of these goods and services represent individual consumption but it is possible for NPISHs to provide collective services." How should these be recorded in functional classification COPNI?'
Netherlands Bank	'Paragraph 5.82 states, among other things, about holding companies: '... whose principal activity is owning the group'. However, just holding subsidiaries is an activity that hardly provides any added value. So, if the definition '...*the activity which accounts for most of the value added*' is applied, a company with a balance sheet total of 100 billion that re-invoices services for very limited amounts will be a non-financial company. It is unclear whether this is actually intended by the manual. We think the SNA should dedicate one or more paragraphs to such consequences, putting such large companies in the non-financial sector will be counter-intuitive to users and therefore deserves a prominent place. We think that large balance sheet totals should not be ignored completely, therefore we are in favor of leaving some space open for

	these cases were value added is negligible relative to balance sheet total. The principal activity of other institutions then holding companies can also not always by allocated on basis of their value added. Finance companies, for example, have no added value in national accounts terms. Therefore, there should also be space to not only use the value added for the determination of the principal activity of a financial institution, but also to take into account other aspects such as income flows and balance sheet.' 'Paragraph 5.164 specifies that funds that invest directly in domestic real estate are to be classified as non-financial corporations. Funds that invest indirectly in real estate are to remain part of non-MMF investment funds. Although this provides clarity current guidelines miss, this will create – primarily for users of our statistics concerned with financial stability – a synthetic split between the two types of fund that provide investors with basically the same type of risk and return. Although we understand the reasoning behind the proposal, we have doubts whether users are best served with this new approach. In the Netherlands, this new guideline would entail the reclassification of nearly 50 billion euro in assets equal to over one third of the assets of all real estate funds. Furthermore, we miss guidance in mixed cases: how to classify a fund with both directly held domestic real estate and foreign/indirect real estate? Where is the tipping point between S.11 and S.124?' 'In paragraph 5.253 and further, it is explained that a household is resident in the territory where his primary dwelling is located. This means that any unincorporated enterprise of this household is by definition also resident in this territory. It would be useful if that is made explicitly clear in the SNA. For the Netherlands, this is especially important for illegal activities. Well known crime lords have relocated to foreign countries in order to avoid arrest. They are however still smuggling illegal drugs through the Dutch harbor. As the crime lord is no longer a Dutch resident, the illegal activities also fall outside the Dutch economy. As the inclusion or exclusion of these activities has a significant impact on value added, we would like to have the required treatment of these unincorporated enterprises explicitly described in the SNA. In paragraph 5.257, the treatment of students is explained. It is however not described when someone is considered a student. A description would be useful and is especially relevant for so called PhD students, who are students in some countries but employees of the university in other countries.'
Peru National Institute of Statistics and Informatics	'In paragraph 5.129 to 5.137 The characteristics of the NPIs in each of the institutional sectors should be better clarified, mentioning that in the Peruvian case, there is a regime applicable to the use of resources from the processes of

	promoting private investment, these resources are destined for the execution of social programs and through a trust contract, the private company agrees with the government to allocate a percentage of its profits to a social fund for the creation of a school, a health center, among others, close to where the project, We understand that it is an NPI but we do not clearly see which sector it belongs to: • If it is an ISFL that serves the government, because the government is the one that receives the transfer from the private company for the legal creation of the Social Fund, which is called the Social Fund + name of the company and is constituted as a Non-Profit Civil Association. profit. • Or it is an NPI that serves households as they are the direct beneficiaries of the project.'
INEGI Mexico	'Paragraph 5.150 indicates that chapter 22 develops the Fintech issue in more detail, but that is not the case; it is only a tiny paragraph. We suggest expanding on the issue of the breakdowns of Fintech companies. For example, should Fintech companies that are crowdfunding institutions be classified as S.122 Deposit-taking corporations? What happens if the fund is invested in real estate? Would the Fintech company be classified as an S.126 Financial Auxiliary, and would the fund be an institutional unit classifiable as a non-financial corporation because it offers non-financial services, as stated in paragraph 5.164?'
National Bank of Belgium	• '5.164: This paragraph states that *"funds which own, and rent out, dwellings and/or commercial property, are classified as providers of rental and other types of real estate services, and not as providers of financial services. As providers of non-financial services, they are classified in the non-financial corporations sector, and not as financial corporations*". However, we believe that the classification of an institutional unit should not be based on whether or not the unit receives rental payments. Other financial corporations (like OFIs, banks and insurance corporations) or government units can potentially, though maybe not as their primary activity, hold a portfolio of real estate, receiving rental payments and thus providing non-financial services. These corporations would never be reclassified to the non-financial sector. Secondly, it could be strange to users (i.e. investors, supervising authorities, policy makers) that some investment funds are classified elsewhere than in the sector of the non-MMF investment funds. Moreover, the distinction between real estate funds (directly and indirectly investing in real estate) and other types of funds is often available in financial statistics. Introducing another sort of breakdown in national accounts could prove confusing.'

UK Statistics Authority

Spain Banco de Espana	‘5.164: The exclusion of real estate investment funds from the category of non-money market investment funds (Non-MMF) could have counterproductive consequences in terms of consistency with other statistics. Historically, these investment funds have been included in investment fund statistics, as reflected in the recent update of the European Central Bank’s regulation on investment fund statistics, which has expanded information related to real estate investment funds. Therefore, this modification in the SNA could conflict with the objective of investment fund statistics and reduce their usefulness of SNA data for risk analysis and financial stability.’

2025 BPM7 Adoption – Principles for NSCASE

Recommendation paper

NSCASE(24)15

Executive Summary

1. This paper summarises the key headline principles which NSCASE can consider in relation to the forthcoming update of the Balance of Payments Manual (BPM7). It acts as a precursor to ONS seeking NSCASE advice on new and edited chapters in the Balance of Payments Manual 7. A similar set of considerations and principles have already been agreed on for the 2025 System of National Accounts (SNA). Many of the chapters within the 2025 SNA have been drafted jointly with chapters within the BPM7.

Introduction

2. Implementing the updated BPM will have effects on the UK's main macroeconomic aggregates. Changes within the BPM7 documentation are likely to have direct effects on the recording of the Balance of Payments. How decisions to follow guidance are made is a key question for the ONS, UKSA and NSCASE in terms of providing in-depth and well thought through advice. This is essential to ensuring an efficient process of manual adoption over the next BPM revision cycle.

Principles to be noted by NSCASE when providing advice on the upcoming BPM draft chapters.

3. The UK's economic statistics are produced using a range of statistical standards, manuals and other international guidance.
    a. Our National Accounts are currently based on the European System of Accounts (ESA), which itself is based on the United Nations' SNA. Going forward it has been agreed that the 2025 SNA will be the default manual. The latest BPM has been drafted in coherence with the 2025 SNA and therefore any deviation from BPM7 would be connected to a deviation from the 2025 SNA.
    b. The UK Government and Public Sector Finances are currently based on the Manual on Government Deficit and Debt (MGDD, 2019), while statistics on the UK's cross-border flows are based on the IMF's Balance of Payments Manual (BPM, 2009). The ESA, MGDD and the BPM all sit alongside the measurement framework established by the SNA.

Considerations for NSCASE

4. As NSCASE considers these proposals on the new BPM, the Committee will need to take a view on three considerations. **Does NSCASE agree with the three considerations?**

5. *NSCASE will consider where to deviate from the default position of BPM7 which best meets UK measurement needs.*
    a. If there are differences between international manuals, such as presently exist between the BPM versions, for instance, NSCASE will need to recommend which to adopt, with BPM7 as the default standard.

6. *NSCASE will consider priorities, process and timetable for how best to advise the national statistician.*

7. *NSCASE will consider the effects on overall international comparability when considering specific deviations from the BPM, recognising that comparability may not always be ideal given the UK's circumstances.*

BPM7 Chapters 5, 7, 8 and 9

Advice Paper

NSCASE(24)16

Executive Summary

1. This paper provides the UK response to chapters 5, 7, 8 and 9 of BPM7 and highlights any changes made to these chapters. Overall, there are minimal changes that have been brought in for these chapters since BPM6 and on the whole the ONS is happy with these changes.
2. The link to Chapter 5 can be found here
3. The link to Chapter 7 can be found here
4. The link to Chapter 8 can be found here
5. The link to Chapter 9 can be found here

Introduction

6. For these BPM7 chapters the ONS have decided to highlight only new paragraphs or changes to existing paragraphs as the ONS was already working from the basis of BPM6. The paper is structured to provide any completely new paragraphs for each of the chapters before providing a table that shows the changes of existing chapters with new text in green and removed text in red

ONS Considerations

7. *Chapter 5:* The UK suggests where possible, for BPM and SNA to have the same chapter structure to aid navigation and understanding. Overall, the UK is happy with the content of the chapter.

8. *Chapter 7:* The UK is satisfied with the content but notes there are areas where the language can be tightened but we expect that will be reviewed in final editing.

9. *Chapter 8:* The UK is satisfied with the content but notes it is currently difficult to properly assess its impact where it makes references to other chapters which are not yet available. When these chapters are released the ONS will address their influence on Chapter 8.

10. *Chapter 9:* The UK noted that there was a lack of discussion on crypto assets within this chapter and feels maybe they should have been discussed.

UK Statistics Authority

BPM7 Chapter 5

Chapter 5 New paragraphs

1. Below the ONS provides for the Committee the new paragraphs added into Chapter 5 for BPM7.

Financial claims

2. 5.(9) Certain financial instruments (e.g., unallocated gold deposits, crypto deposits, commodity futures commodity-linked bonds) which are linked to the price of commodities or other nonfinancial assets (e.g., oil, gas, agricultural products, gold, silver, copper, platinum) are also financial claims to the extent that they give rise to an economic asset with a counterpart liability.

Other financial instruments not recognized as financial assets

3. 5.(15) Crypto assets designed to act as a general medium of exchange (or as a medium of exchange only within a platform) that do not have a corresponding liability are treated as non-produced nonfinancial assets (see paragraphs xx, Chapter 14 a description of this category of crypto assets). Crypto assets are discussed in detail in Chapter 16 (paragraph 16.XX-XX).

Equity and investment fund shares - Equity

4. 5.(27) Subscription rights are the rights for corporate shareholders to participate in the acquisition of shares newly issued by the corporation. Subscription rights are designed to offset any potential dilution effect in the value of the stake of current shareholders resulting from the terms of issuance. By exercising the rights and buying a proportionate number of shares of the issuance, the investor maintains their percentage of ownership in the corporation. If the shareholders choose not to exercise the rights within the specified time frame, their ownership will be diluted. Subscription rights are classified as equity since the sum of the value of the shares after the subscription issuance and that of subscription rights represents the total value of the corporation that issued the subscription rights.

Special drawing rights

5. 5.(36) Domestic arrangements for holding SDRs and the accounting treatment may differ across IMF members according to differences in legal and institutional frameworks. The majority of members record the SDR positions on the central bank's balance sheet while some members record them on the balance sheet of a government agency. Regardless of where SDRs are recorded, the country's reserve assets increase with the allocation.

Central bank swap arrangements

6. 5.(44) Deposits include assets created under central bank swap arrangements that involve the temporary exchange of deposits between the

central banks of two economies (central bank swap arrangements are discussed in paragraphs 6.102-104).

Factoring

7. 5.(62) Factoring is a transaction in which a factor, which can be a bank, a specialized factoring company, or other financial organization, buys trade accounts receivable from a supplier at a discount. Factoring is commonly viewed as a purchase or sale of invoices transferring the legal right of the claim on the debtor to the factor. In factoring, the indirect financing by the factor to the debtor is treated as a loan. The accounts receivable concerned are trade-related receivables arising from the provision of goods, services, or work in progress. There are two basic types of factoring: non-recourse and recourse factoring. In a non-recourse agreement, the factor assumes the full risk of non-payment by the debtors at maturity and therefore may charge the supplier a higher fee. In a recourse agreement, all or part of the risk is kept by the supplier. The factor may also keep a reserve that should be paid back to the supplier once the debtor pays its liability in full. The instrument reclassification from trade credit to a loan should be recorded as a transaction in the financial account. The recourse is seen as a guarantee treated as a contingent liability for the supplier, which should therefore not be recorded unless and until being activated by the factor. The factoring income is treated as a fee paid by the supplier (see paragraph).

8. 11.XX). The reserve held by a factor is classified as a deposit, a loan, or in accounts receivable/payable, following the recording of other cash collaterals (e.g., repayable margins for financial derivatives).

Hybrid insurance products

9. 5.(66) Hybrid insurance products that have characteristics of both life and nonlife insurance are allocated to life or nonlife insurance depending on which features are predominant, i.e., the saving component (life insurance) or the component whereby claims are paid only if the insured event occurs (nonlife insurance). While some insurance policies may contain hybrid features, there is usually a predominant benefit and purpose for which the policy is intended, and other features are just value-added benefits to make the policy more appealing to the customers.

Pension entitlements

10. 5.(68) An employer may contract with a third party to administer the pension funds for the employees. If the employer retains the responsibility for any deficit in funding as well as the right to retain any excess funding, the employer is described as the pension sponsor and the unit working under the direction of the pension sponsor is described as the pension administrator. If the agreement between the employer and the third party acting as an administrator is such that the employer passes the risks and responsibilities for any deficit in funding to the third party in return for the right of the third party to retain any excess, the third party becomes the pension sponsor as well as the administrator. A funding deficit or excess of the pension fund to be paid by/to the sponsor is also recorded in this item.

Chapter 5 Changed Paragraphs

11. Below the ONS provides the committee with direct changes to paragraphs.

Paragraph	Old Paragraph	New Paragraph
5.10	Contingent assets and liabilities are contractual financial arrangements between institutional units that do not give rise to unconditional requirements either to make payments or to provide other objects of value. They are not recognized as financial assets or liabilities prior to the condition(s) being fulfilled. However, by conferring certain rights or obligations that may affect future decisions, they can produce an economic impact on the parties involved. As a result, supplementary information may be provided on significant contingent assets or liabilities. A contingent claim sold to another party is classified under contracts, leases, and licenses; is not included in the international investment position; and has no counterpart liability.	Some assets or liabilities may involve a legal contract but specify that one institutional unit is obliged to provide a payment or series of payments or to provide other objects of value to another unit only if specified conditions prevail. Such assets or liabilities are called contingent assets or liabilities. They are not recognized as financial assets or liabilities prior to the condition(s) being fulfilled. However, by conferring certain rights or obligations that may affect future decisions, they can produce an economic impact on the parties involved. As a result, supplementary information may be provided on significant contingent assets or liabilities.
5.41	Transferable deposits consist of all deposits that are (a) exchangeable for banknotes and coins on demand at par and without penalty or restriction and (b) directly usable for making payments by check, draft, giro order, direct debit or credit, or other direct payment facility. Some types of deposit accounts embody only limited features of transferability. For example, some deposits have restrictions such as on the number of third-party payments that can be made per period or on the minimum size of the individual third-party payments. An overdraft arising from the overdraft facility of a transferable deposit account is classified as a loan.	Transferable deposits consist of all deposits that are (a) exchangeable for currency on demand at par and without penalty or restriction and (b) directly usable for making payments by check, draft, giro order, direct debit or credit, or other direct payment facility. Some types of deposit accounts embody only limited features of transferability. For example, some deposits have restrictions such as on the number of third-party payments that can be made per period or on the minimum size of the individual third-party payments. An overdraft arising from the overdraft facility of a transferable deposit account is classified as a loan. Transferable deposits include electronic money when they are liabilities of deposit-taking corporations.
5.42	Interbank positions can be shown as a separate component of deposits. In	Interbank positions can be shown as a separate component of deposits.

	some cases, the instrument classification of interbank positions may be unclear, for example, because the parties are uncertain or one party considers it as a loan and the other a deposit. Therefore, as a convention to ensure symmetry, all interbank positions other than securities and accounts receivable/payable are classified under deposits.	Interbank positions should be classified in the relevant instrument categories. When there is uncertainty between a loan and a deposit, interbank positions should be recorded under deposits.
5.67	Potential payments by social security schemes may not be recognized as financial assets or liabilities. However, if a social security fund also acts as a pension scheme (as is sometimes the case for benefits for present and former government employees), those pension obligations are included under this category, but not the pension fund's social security obligations.	Pension entitlements related to social security schemes are generally not recognized as financial assets or liabilities, given that they are imposed by a general government law and sometimes subject to retrospective adjustments of the amounts payable. On the other hand, pension entitlements derived from an employer-employee relationship are generally recognized, unless they are intertwined with the social security schemes. This could also apply to pension entitlements of pension schemes where a government or another public unit is the employer. Such entitlements would qualify as financial assets or liabilities if the pension entitlements can be regarded as part of the conditions of employment and the employment contract underlying the scheme limits retrospective adjustments of the amounts payable in a similar way as pension entitlements from an employer-employee relationship with a private employer. This is particularly the case when the pension fund for government employees is clearly separated from the social security schemes.

BPM7 Chapter 7

Chapter 7 New paragraphs

12.7.7 Previous version of the Manual highlighted the importance of compiling the INTERNATIONAL INVESTMENT POSITION, emphasizing the role of balance sheet analysis in understanding sustainability and vulnerability. They also underscored the importance of analysing currency mismatches, the implications of sector and interest rate composition of debt, and the effect of the maturity structure on liquidity. Consequently, currency composition and remaining maturity analyses of the INTERNATIONAL INVESTMENT POSITION are encouraged as additional information. Annex 14 provides presentation tables of currency composition of assets and liabilities by sector with a breakdown by certain foreign currencies, namely the U.S. dollar, euro, yen, and others, together with a breakdown by original maturity. The tables also provide information on the remaining maturity of long-term debt liabilities, with a breakdown by sector. These tables are consistent with the standard components of the INTERNATIONAL INVESTMENT POSITION and with the presentation adopted in External Debt Statistics: Guide for Compilers and Users 2014.

13. 7.8 This edition of the Manual reflects the increasing importance of the integrated INTERNATIONAL INVESTMENT POSITION presentation for analytical and policy purposes. The granular data from the integrated INTERNATIONAL INVESTMENT POSITION presentation (trans-actions, revaluations, and other changes in volume) are extremely helpful for analyzing net INTERNATIONAL INVESTMENT POSITION dynamics (see paragraphs 19.xx-xx). The integrated INTERNATIONAL INVESTMENT POSITION will be part of the standard components of BPM7 as presented in Annex 14 (reference to relevant paragraphs of Chapter 19 will be added). Separate reporting of data on a) debt cancellation and write-offs; and b) reclassifications under other changes in volume is encouraged (i.e., they will be part of supplementary items) as indicated in the Note to Table 7.1.

14. 7.16 (a) Own funds at book value. Own funds at book value. This method for valuing equity uses the value of the enterprise recorded in the books of the direct investment enterprise, as the sum of (a) paid-up capital (excluding any shares on issue that the enterprise holds in itself and including share premium accounts); (b) all types of reserves identified as equity in the enterprise's balance sheet (including investment grants when accounting guidelines consider them company reserves); (c) cumulated reinvested earnings; and (d) holding gains or losses included in own funds in the accounts, whether as revaluation reserves or profits or losses. The more frequent the revaluation of assets and liabilities (at least, on an annual basis), the closer the ap-proximation to market values. Data that are not revalued for several years will likely be a poor reflection of market values.

15. (b) Recent transaction price. Unlisted instruments may trade from time to time, and recent prices, within the past year, at which they were traded may be used. Recent prices are a good indica-tor of current market values to the extent that conditions are unchanged. This method can be used as long as there has been no material change in the corporation's position since the transaction date. Recent transaction prices become increasingly misleading as time passes and conditions change.

16. (c) Market capitalization method. Book values reported by enterprises can be adjusted at an aggregate level by the statistical compiler. For untraded equity, information on "own funds at book value" (see paragraph 7.16(e)) or other indicators of corporate performance can be collected from enterprises, and then adjusted with ratios based on suitable price indicators, such as the ratio

to market capitalization to book value for listed companies in the same economy with similar operations. Alternatively, assets that enterprises carry at cost (such as land, plant, equipment, and inventories) can be revalued to current period prices using suitable asset price indices.

17. 7.16-1 Compilers should maintain transparency and state clearly the method(s) used. Methods for valuation of direct investment equity positions are discussed in more detail in the OECD Benchmark Definition of Foreign Direct Investment, fifth edition (paragraphs xx). In addition, the BPM7 Compilation Guide will provide practical guidance on the implementation of different methods including a decision tree that serves as a complement for compilers to clarify the methods available for the valuation of unlisted equity depending on the information available. These methods may also be useful for valuation of other unlisted equity securities and other equity.

Box 7.1. Treatment of Negative Equity Positions

18. This Manual recommends recording negative equity positions for unlimited liability entities3 if the valuation methods for unlisted equity result in such values. With regards to limited liability entities,4 it is recommended to record negative equity positions as the default option and only zero out negative positions in specific cases where the shareholders' and their affiliates' liability is strictly limited.
19. In this regard, strictly limited liability is referring to a situation where the shareholder would not suffer any other direct economic losses than the existing equity investment in case of bankruptcy and would not be likely to take on any financial obligations due to the absence of implicit guarantees or significant reputational risks. Examples of other direct eco-nomic losses include loan losses and the realization of guarantees, while the willingness to assume new financial obligations could be related to reputational, societal, or other reasons.
20. It can generally be assumed that implicit guarantees or significant reputational risks exist when a shareholder's owner-ship share is at least 10%. This implies that negative direct investment equity positions should not be zeroed out unless a direct investor has no legally binding economic obligations, except for the existing equity investment, and a history of not assuming any new financial obligations in the event of bankruptcy or termination of its direct investment enter-prises.5
21. Negative equity positions in public corporations and central banks should never be zeroed out. Compilers are encouraged to show negative equity positions as supplementary "of which" items under equity assets and liabilities. Further, stock-flow consistency should be ensured through the recording of revaluations rather than other changes in the volume of financial assets and liabilities if negative equity is zeroed out.

Intercompany Lending in Debt Securities

22. 7.25-1 Intercompany lending is discussed in paragraph 6.26-27. While the basic valuation method for debt securities component of intercompany lending

is market value, it could be compiled at nominal value as a supplementary item in cases where the economy is significantly impacted by direct investment. Refer to “Additional Analytical Position Data” part of Annex 14 for further details.

23. 7.28-1 This treatment reflects the economic ownership in that the holder of the negative position is exposed to the risks and rewards of the security, in an equal and opposite way, as the party in a long position. In aggregate, the recording of a negative position overcomes the double counting of the security by both the economic (original) owner and the final owner (the party who bought the borrowed security) and helps present consistent debtor-creditor relationship at a global level. Reverse transactions may be sequenced in a long chain of transactions and positions using the same security. Annex 7 (Table 4) explains the recording of on-selling securities that are acquired under repo or security lending in the financial account and INTERNATIONAL INVESTMENT POSITION.

24. 7.37-1 Any value changes in financial derivatives are classified as revaluations and are included in the other changes in financial assets and liabilities account (BPM7, paragraph 6.xx). For financial derivatives that include a foreign exchange risk, are a case where the steps for separating exchange rate and other revaluations—, as stated in paragraph 9.28, —are not applicable. In those cases, a valuation change due to exchange rate changes can arise even in the currency of denomination of the instrument. In some cases, such as cross-currency swaps that are also interest rate swaps, it may not be practical to separate exchange rate revaluations from other revaluations. The convention is that all revaluation effects are due to price revaluations.

25. 7.43-1 In the case of loans with concessional interest rates, positions are valued at nominal value based on the contractual interest rate, similar to any other loans. Concessional lending is discussed in paragraph 13.51/Annex 2.

26. 7.44-1 While the basic valuation principle for positions in loans is nominal value, when there is evidence of loan deterioration due to publicly known events (e.g., in the context of bank recovery operations) value reset — even beyond the cases of bankruptcy and liquidation, or court decisions—is recommended. Specific guidance on the situations when values should be reset and the criteria to be applied will be provided in the BPM7 Compilation Guide.

27. 7.61-1 Repurchase agreements, securities lending with cash collateral, and margin lending can be used to obtain short-term financing. Separate information on these types of loans helps in analysing the degree to which financial corporations are involved in liquidity transformation and in creation of additional leverage. Therefore, data on repurchase agreements, securities lending with cash collateral, and margin lending may be provided as an “of which” supplementary item under loans.

28. 7.63-1 Nonlife insurance technical reserves consist of prepayment of insurance premiums less service charges and reserves for outstanding claims (both reported claims and for claims incurred and not reported) for nonlife insurance. Equalisation reserves (explained further in paragraph 5.64(b)) for events that have occurred are included, whereas reserves for events that have not occurred are excluded.

29. 7.64-1 A discussion on Islamic insurance (Takaful) and re-insurance (Re-takaful) including their reserves as well as similarities and differences with conventional insurance is provided in chapter 17 Islamic Finance.

Chapter 7 Changed Paragraphs

Paragraph	Old Paragraph	New Paragraph
7.3	The INTERNATIONAL INVESTMENT POSITION relates to a point in time, usually at the beginning of the period (opening value) or end of the period (closing value).	The INTERNATIONAL INVESTMENT POSITION relates to a point in time, usually at the beginning of the period (opening value) or end of the period (closing value). The integrated INTERNATIONAL INVESTMENT POSITION presentation in Table 7.1 explains the changes between the values in the opening and closing positions of the INTERNATIONAL INVESTMENT POSITION through the accumulation accounts, which consist of the balance of payments' financial account transactions and the other changes in financial assets and liabilities accounts. The latter, in turn, comprises revaluations and other changes in volume.
7.4	This chapter explains the coverage, presentation, classification, timing, and valuation is-sues for the INTERNATIONAL INVESTMENT POSITION, and its relationship to and other changes in assets and liabilities account.	This chapter explains the coverage, presentation, classification, timing, and valuation is-sues for the INTERNATIONAL INVESTMENT POSITION, and its relationship to accumulation accounts (i.e., BOP financial account and other changes in financial assets and liabilities accounts).
7.12c	Institutional sector of resident party—at least, central bank, deposit-taking corporations except the central bank, general government, and other sectors; other sectors is split between other financial corporations and the remaining nonfinancial subsectors (nonfinancial corporations, households, and NPISHs), as defined in Chapter 4, Section D.	Institutional sector of resident party—at least, central bank, deposit-taking corporations except the central bank, general government, other financial corporations, nonfinancial corporations, households, and NPISHs, as defined in Chapter 4, Section D. Additional subsectoring or supplementary "of which" items of the financial and nonfinancial

	Additional subsectoring of the financial and nonfinancial sectors may be undertaken when analytically relevant;	corporations sectors may be undertaken following Table 4.4;
7.14		Direct investment is defined in paragraphs 6.8–6.24. Other aspects of direct investment are covered in paragraphs 6.25–6.41. Direct investment standard components are presented by instruments (equity and debt instruments) and resident institutional sectors. Presentation based on the relationship between the investor and the entity receiving the investment is included under memorandum items. The directional principle presentation of direct investment can be used in the INTERNATIONAL INVESTMENT POSITION on a supplementary basis, as discussed in paragraphs 6.42–6.45 and Box 6.4. Other specific issues concerning direct investment in the INTERNATIONAL INVESTMENT POSITION are discussed in the following paragraphs.
7.16	When actual market values are not available, an estimate is required for measuring the equity difference between assets and liabilities of unlisted corporations at market-equivalent prices. Alternative methods of approximating market value of shareholders' equity in a direct investment enterprise include the following.	When actual market values are not available, an estimate is required for measuring the equity of unlisted corporations at market-equivalent prices. This Manual prescribes three preferred methods for estimating market value: a) own funds at book value (OFBV); b) recent transaction price; and c) market capitalization or Price to book Value (P/B).
7.19	The value of a direct investment enterprise's nonequity liabilities may exceed its assets—this situation can occur most commonly in the early or final stages of its existence.	The valuation methods for unlisted equity recommended in paragraph 7.16 can lead to negative values. This is in particular true for OFBV and market capitalization valuation methods. Recent transaction prices will usually not be negative, the investor is not liable for any losses exceeding the capital invested in the enterprises. Box 7.1 provides guidance on the treatment of negative equity positions.
7.20	An entity resident in one economy may borrow funds on behalf of affiliated enterprises in one or more other economies. The affiliates may include holding companies, parent companies, direct investment	An entity resident in one economy may borrow funds on behalf of affiliated enterprises in one or more other economies. The affiliates may include holding companies, parent companies, direct investment

10

	enterprises, and fellow enterprises. Examples include SPEs, sometimes called conduits, which may be used to undertake the borrowing, or an entity with substantial activities of its own may do the borrowing. In these cases, the liability is often guaranteed by the parent or a fellow enterprise. Alternatively, the affiliated enterprise may commit future revenue streams. Regulatory or taxation benefits may be factors behind such arrangements. In these cases, the creditor records a claim on the entity that directly undertakes the borrowing. That is, the creditor does not show its claim as being on the enterprise that ultimately receives the funds or makes the guarantee.	enterprises, and fellow enterprises. Examples include SPEs, which may be used to undertake the borrowing, or an entity with substantial activities of its own may do the borrowing. In these cases, the liability is always guaranteed by the parent or a fellow enterprise, explicitly or implicitly, in whole or in part. Alternatively, the affiliated enterprise may commit future revenue streams. Regulatory or taxation benefits may be factors behind such arrangements. In these cases, the creditor records a claim on the entity that directly undertakes the borrowing. That is, the creditor does not show its claim as being on the enterprise that ultimately receives the funds or makes the guarantee.
7.24	Owners' claims on quasi-corporations that are resident in other economies are usually classified as direct investment. In the rare cases in which the proportion of equity in land or a joint venture is less than 10 percent, the claim is classified as other investment—other equity.	Owners' claims on quasi-corporations that are resident in other economies are usually classified as direct investment. In the rare cases in which the proportion of equity in land or a joint venture is less than 10 percent, the claim is classified as other investment—other equity and equity in international organizations as discussed in paragraph 6.62.
7.25	Equity in quasi-corporations should be valued as equal to the market value of the quasi-corporations' assets less the market value of liabilities other than equity to both residents and non-residents. (This method would mean that quasi-corporations have no residual net worth.). Alternatively, equity in quasi-corporations may be valued using the same methods as used for direct investment equity, discussed in paragraphs 7.16–7.17.	Equity in quasi-corporations should be valued as equal to the market value of the quasi-corporations' assets less the market value of liabilities other than equity to both residents and non-residents. (This method would mean that quasi-corporations have no residual net worth.). Alternatively, equity in quasi-corporations may be valued using one of the three preferred methods dis-cussed in the above sub-section on valuation of unlisted equity.
7.27	Accrued interest not yet paid on debt securities should be included in the outstanding amount of the financial asset or liability. Accrued interest not yet paid includes interest that has accrued and that is not yet due for payment or that is due for payment but in arrears. Accrued interest not yet paid should not be reported separately (such as in other accounts	Accrued interest not yet paid on debt securities should be included in the outstanding amount of the financial asset or liability. Accrued interest not yet paid includes interest that has accrued and that is not yet due for payment or that is due for payment but in arrears. Accrued interest not yet paid should not be reported separately (such as in other accounts

UK Statistics Authority

	receivable/payable). In market quotations, a value including interest that has accrued but is not yet payable is called the "dirty price" and is suitable for valuation of items in the INTERNATIONAL INVESTMENT POSITION (provided interest due and not yet paid is also included). In contrast, the "clean price" and requires accrued interest not yet paid to be added for use in the INTERNATIONAL INVESTMENT POSITION. Methods of calculating the accrual of interest are discussed in paragraphs 11.48–11.76.	receivable/payable). The market price of a debt security that includes interest that has accrued but is not yet payable is called the "dirty price" and is suitable for valuation of items in the INTERNATIONAL INVESTMENT POSITION. In contrast, the market price of a debt security excluding the accrued interest not yet payable is called the "clean price" and requires accrued interest not yet paid to be added for use in the INTERNATIONAL INVESTMENT POSITION. Methods of calculating the accrual of interest are discussed in paragraphs 11.48–11.76.
7.30	Whereas the basic valuation method for debt securities is the market value, the nominal value is encouraged as a supplementary item. External Debt Statistics: Guide for Compilers and Users recommends that both valuations be used. The nominal value of debt securities is a useful measure of value from the viewpoint of the debtor, because at any moment, it is the amount that the debtor owes to the creditors.	Whereas the basic valuation method for debt securities is the market value, their compilation at nominal value is encouraged as a supplementary item. The nominal value of debt securities is a useful measure of value from the viewpoint of the debtor, because at any moment, it reflects the present value of amounts owed to the creditors (i.e., sum of funds originally advanced, plus any subsequent advances, plus any interest that has accrued, less any repayments) (see para-graphs 3.xx-xx for additional details on nominal valuation). This Manual emphasizes the compilation of a table on reconciliation between nominal and market valuation of debt securities liabilities as part of the "Additional Analytical Position Data" in Annex 14 on the lines of External Debt Statistics 2013: Guide for Compilers and Users. In cases where the data on debt security holdings at nominal value are relevant for the economy, the nominal value of the total amount of assets in debt securities may be included in the supplementary table, next to liabilities. For the definition of nominal value and related explanation, refer to the Annex: Methods to Value Transactions and Stocks, Chapter 3.
7.32	A deep-discount bond is a bond that has a low coupon compared with the market rate of interest, so that it is issued at a considerable discount to face value. Like the zero-coupon	A deep-discount bond is a bond that has small or no coupon payments and is issued at a considerable discount to face value. Like the zero-coupon bond, the difference between the

12

	bond, the difference between the issue price and face value accrues as interest over the life of the bond, and the market value of the bond increases as the interest accrues. The accrual of interest on deep-discount bonds is discussed in paragraph 11.56.	issue price and face value accrues as interest over the life of the bond, and the market value of the bond increases as the interest accrues. The accrual of interest on deep-discount bonds is discussed in paragraph 11.56.
7.33	Financial derivatives and ESOs are valued at market prices prevailing on balance sheet recording dates. If market price data are unavailable, other fair value methods (such as option models or present values) may be used to value them. Compilers are generally constrained to use the parties' own accounts.	Financial derivatives and ESOs are valued at market prices prevailing on balance sheet recording dates. If market price data are unavailable, other fair value methods (such as option models or present values) may be used to value them. Compilers are generally constrained to use the parties' own accounts. When payments are made before the derivative contract expires (such as payments in interest swaps), the change in the value of the contract is recorded as transactions.
7.35	A key characteristic of many derivative contracts is that the counterparties make commitments to transact, in the future and at agreed-on prices, in underlying items. The present value (or market price) of a financial derivative is derived from the difference between the agreed-on contract price of an underlying item and the prevailing market price (or the market price expected to prevail), appropriately discounted, for that item. For options, the price depends on the potential price volatility of the underlying instrument, the time to maturity, interest rates, and the difference between the strike price and the market price of the underlying item. The value of a swap contract is derived from the difference, appropriately discounted, between expected gross receipts and gross payments.	A key characteristic of many derivative contracts is that the counterparties make commitments to transact, in the future and at agreed-on prices, in underlying items. The present value (or market price) of a financial derivative is derived from the difference between the agreed-on contract price of an underlying item and the prevailing market price (or the market price expected to prevail), appropriately discounted, for that item. For options, the price depends on the potential price volatility of the underlying instrument, the time to maturity, interest rates, and the difference between the strike price and the market price of the underlying item. The counterpart liability is attributable to the writer of the option and is valued at the current cost of buying out the rights of the option holder. For a warrant, the counterpart liability of the issuer is the current outlay required to buy out the exercise rights of the holder. The value of a credit default swap is determined by the difference between the present value of the series of premium payments and the estimated present value of the potential payments in the event of default. The value of a swap

		contract is derived from the difference, appropriately discounted, between expected gross receipts and gross payments.
7.63a	prepayment of premiums and reserves for outstanding claims for nonlife insurance (both reported claims and for claims incurred and not reported). Equalization reserves (explained further in paragraph 5.64(b)) for events that have occurred are included, whereas reserves for events that have not occurred are excluded;	nonlife insurance technical reserves
7.64	Insurance technical reserves are regarded as liabilities of the insurance companies, and assets of the policyholders and beneficiaries. For economies that are major insurance service ex-porters or importers, temporary insurance reserves may be significant. For economies that are major sources or destinations of cross-border workers or that are sources or destinations for retirees who change residence, life insurance and pension entitlements may be important elements of the INTERNATIONAL INVESTMENT POSITION. Insurance technical reserves may be classified as direct investment in the cases discussed in paragraph 6.27.	Insurance technical reserves, pension and annuity entitlements and provisions for calls un-der standardized guarantees are regarded as liabilities of the insurance companies and pension funds, and assets of the policyholders and beneficiaries. For economies that are major insurance service ex-porters or importers, cross-border insurance reserves may be significant. For economies that are major sources or destinations of cross-border workers or that are sources or destinations for retirees who change residence, life insurance and pension entitlements may be important elements of the INTERNATIONAL INVESTMENT POSITION. Insurance technical reserves may be classified as direct investment in the cases discussed in paragraph 6.27.
7.65a	A defined contribution scheme is one in which the benefits are defined exclusively in terms of the level of the fund built up from the contributions made over the employee's working life and the increases in value that result from the investment of these funds by the manager of the pension scheme. The entire risk of the scheme to provide an adequate income in retirement is thus borne by the employee. The liability of a defined contribution fund, and the corresponding assets of the beneficiaries, are equal to the current market value of the assets of the fund, including any claims on the	A defined contribution scheme is one in which the benefits payable to the beneficiary on retirement are defined exclusively in terms of the level of the funds built up from the contributions made over the beneficiary's working life and the increases in value that result from the investment of these funds by the manager of the pension scheme. The entire risk of the scheme to provide an adequate income in retirement is thus borne by the beneficiary. The liability of a defined contribution scheme, and the corresponding assets of the beneficiaries, are equal to the current market value of the assets of the fund, including any claims on the scheme'

	employer. Defined contribution plans are always funded.	sponsor any claims on the employer. Defined contribution plans are always funded.
7.65b	A defined benefit scheme is one in which the benefits payable to the employee on retirement are determined by the use of a formula, either alone or as a minimum amount payable. The liability of a defined benefit scheme, and the corresponding assets of the beneficiaries, are equal to the present value of the promised benefits. In defined benefit schemes, benefits to the policyholder are guaranteed, but the scheme may be funded or unfunded.	A defined benefit scheme is one in which the benefits payable to the beneficiary on retirement are determined by an actuarial formula, related to the participants' length of service and salaries. The liability of a defined benefit scheme (including nonautonomous pension funds and unfunded pension schemes), and the corresponding assets of the beneficiaries, are calculated by estimating the present value of the future benefits using actuarial estimates of the expected life length of the beneficiaries. In defined benefit schemes, benefits to the policyholder are guaranteed, but the scheme may be (partially) funded or unfunded. (See paragraphs 5.66–5.67 for more detail about pension entitlements as a financial instrument.)

BPM7 Chapter 8

Chapter 8 New paragraphs

30. 8.16a The concept of superdividends does not apply to direct investment in the standard presentation because any distributions out of accumulated reserves from ordinary earnings are treated as dividends (see para-graphs [8.28a] and [12.XX]). However, exceptional distributions related to the sales of assets and liquidating dividends should be recorded as withdrawals of equity (see also paragraphs [12.XX] and [12.XX].

31. 8.28a Superdividends are large and irregular payments made by corporations to their shareholders or owners that are funded from accumulated reserves or sales of assets. If the distributable income is positive, the difference between the payment and the distributable income of the relevant accounting period is recorded as a superdividend under withdrawal of equity. The remainder of the payment (equal to the distributable income) is recorded as a dividend. If the distributable income is negative, the entire dividend payout is recorded as a superdividend under withdrawal of equity. Distributable income includes net income from the production of goods and services, net property income, and net transfers, and is described in further detail in paragraph [12.XX].

Chapter 8 Changed Paragraphs

Paragraph	Old Paragraph	New Paragraph

8.8	Net recording of flows in financial assets and liabilities are recommended in the international accounts for both analytical and pragmatic reasons. Financial markets are typified by large turnover. The focus of the financial account is on the net changes in each of external financial claims and liabilities due to transactions. Also, gross reporting of data may not be possible for certain classes of units and for some financial instruments.	Net recording of flows in financial assets and liabilities are recommended in the external accounts for both analytical and pragmatic reasons. Financial markets are typified by large turnover. The focus of the financial account is on the net changes in each category of external financial assets and liabilities due to transactions. Also, gross reporting of data may not be possible for certain classes of units and for some financial instruments.
8.25C	At the time expenses are incurred or resources or funds are provided by the borrowing entity to a third party (i.e., are not passed to the government), where applicable: a current or capital transfer between the government and the entity is imputed, with the matching entry of a reduction in the value of the government's equity. (For a wholly owned government entity, this imputation has the same value as the reinvestment of earnings that would have been imputed if the general treatment for direct investment enterprises was applicable.)	At the time expenses are incurred, revenues are made, or resources or funds are provided by the borrowing entity to a third party (i.e., are not passed to the government), where applicable: a transaction between the government and the entity is imputed, with the matching entry as a withdrawal or increase in the value of the government's equity. The imputed transaction should be recorded according to its nature, e.g., as interest expenditure on the imputed debt of the government, government revenue, current or capital transfer, or acquisition of assets in the government accounts.
8.34	Financial derivatives (other than reserves) and ESOs are defined in paragraphs 6.58–6.60. Transactions involving financial derivatives may arise at inception, on secondary markets, with ongoing servicing (such as for margin payments), and at settlement. Financial account entries for derivatives preferably should be shown separately for each of assets and liabilities, wherever possible, but net settlements are acceptable when gross reporting is impractical. Any explicit or implicit service charges should be deducted from the value of the financial derivative. However, distinguishing implicit service charges is not usually possible, in which case, the entire value of the financial derivative is classified as being for the financial asset.	Financial derivatives (other than reserves) and ESOs are defined in paragraphs [6.58–6.60]. Transactions involving financial derivatives may arise at inception, on secondary markets, with ongoing servicing (such as for margin payments), and at settlement. Financial account entries for derivatives preferably should be shown separately for each of assets and liabilities, but recording of transactions on a net basis is acceptable where separate data on transactions in assets and liabilities are not available (see also paragraph [A7.45]. Any explicit or implicit service charges should be deducted from the value of the financial derivative. However, distinguishing implicit service charges is not usually possible, in which case, the entire value of the financial derivative is classified as being for the financial

		asset. Annex 7 describes financial derivatives in further detail.
8.47	For nonlife insurance, insurance technical reserves consist of prepayments of insurance premiums and outstanding claims. Prepayments of premiums result from the fact that, in general, insurance premiums are paid in advance. Technical reserves against outstanding claims are reserves that insurance enterprises hold to cover the amounts they expect to pay out for claims that have been reported and are not yet resolved and to cover estimates of claims incurred but not yet reported—including equalization reserves that relate to events that have occurred.	For nonlife insurance, insurance technical reserves consist of prepayments of insurance premiums and outstanding claims. Prepayments of premiums result from the fact that, in general, insurance premiums are paid in advance. Technical reserves against outstanding claims are reserves that insurance enterprises hold to cover the amounts they expect to pay out for claims that have been reported and are not yet resolved and to cover estimates of claims incurred but not yet reported—including equalization reserves that relate to events that have occurred. When nonlife insurance policies are surrendered by mutual agreement between policyholders and nonlife insurers, the insurance technical reserve liabilities of the nonlife insurers will be reduced by the amount of the unearned premiums that is returned to the policyholders and recorded as a transaction. Correspondingly, the insurance technical reserve assets of the policyholders will be reduced by the same amount and recorded as a transaction.

BPM7 Chapter 9

Chapter 9 New paragraphs

Monetization and demonetization of gold bullion

32. 9.12[A] (h) If monetary authorities engage in gold swaps, monetary gold provided as collateral that is not readily available for meeting BOP financing needs should be excluded from the cash borrower's reserve assets and either be demonetized and classified as nonmonetary gold (gold bullion) or reclassified to other investment (unallocated gold accounts) through other changes in volume. Once the gold swap has been settled and the gold is again available for meeting BOP financing needs, it should be reclassified to monetary gold.

Treatment of assets declared under tax amnesty

33. [9.12b] A tax amnesty is a limited-time opportunity for a specified group of taxpayers to report undeclared income and assets relating to an earlier tax period and pay an amount in exchange for forgiveness of the tax liability, without fear of criminal prosecution. If the declared income and assets were

not estimated and considered significant for the economy, or significantly differ from the current estimates, adjustments should be undertaken to record the data on the corresponding instruments. Such adjustments should ideally be implemented as transactions in the relevant periods, ensuring that adjustments for both income and assets are consistent. However, if it is not possible to adjust historical series on assets declared under tax amnesties, as a second best these assets could be recorded in the International investment position in the current period through other changes in volume.

External events: Catastrophic losses

34. [9.12c] Catastrophic losses are the result of large scale, discrete, and recognizable events that may destroy a significantly large number of assets within any of the asset categories. Such events will generally be easy to identify. They include major earthquakes, volcanic eruptions, tidal waves, exceptionally severe hurricanes, drought, and other natural disasters; acts of war, riots, and other political events; and technological accidents such as major toxic spills or release of radioactive particles into the air. Catastrophic losses mostly occur for nonfinancial assets, but they may also arise for financial assets and are recorded as other changes in volume. For instance, major losses as deterioration in the quality of land caused by abnormal flooding or wind damage and destruction of buildings in earthquakes are recorded as other changes in volume for direct investment in case of cross-border ownership since branches or notional units are identified when non-residents own real estate and other natural resources (see paragraph [6.31]). In addition, where evidence of ownership of financial assets depends on written records and these records are destroyed, it may not be possible to re-establish ownership. Similarly, accidental destruction of currency or bearer securities may result from a natural catastrophe or political events.

Change in the sector of an institutional unit

35. 9.24 Corporations may also change sector. For instance, other financial corporations may become deposit taking corporations, or vice versa. In such cases, the change in the sector classification of the owner of financial assets and liabilities is also treated as a reclassification.

Implications of other flows along ownership chains

36. 9.31a Other flows will sometimes impact the value of an entity. For instance, the value of a direct investment enterprise may change due to exchange rate movements if it has external assets and liabilities denominated in foreign currencies. These changes should be recorded as exchange rate changes by the economy of the direct investment enterprise. The value of a direct investment enterprise is also likely to change if its financial assets in a specific economy are seized with no compensation. These changes should be recorded as other changes in volume by the economy of the direct investment enterprise. Conversely, the economy of the direct investor should record such

changes in the value of (directly or indirectly owned) direct investment enterprises as other price changes. The economy of an investor should only record exchange rate changes if there is a change in the equity value resulting directly from the currency denomination of the direct investment enterprise's equity. Similarly, it should only record other volume changes when there is change in the value of its equity holdings that is neither due to transactions nor due to revaluations, e.g., if the shares it holds in the direct investment enterprise have been seized.

37. Implications of differences between transaction prices and values recorded in positions.

38. 9.33a There can also be differences between transaction prices and the values recorded in the INTERNATIONAL INVESTMENT POSITION for other types of instruments. For instance, unlisted equity is sometimes traded at values that deviate significantly from the INTERNATIONAL INVESTMENT POSITION values. In such cases, compilers should use all the information available to improve the quality of the estimated positions when they become aware that they are under or over-estimated (e.g., by implementing backward revisions according to their national revision policy).

Chapter 9 Changed Paragraphs

Paragraph	Old Paragraph	New Paragraph
9.1	In the international accounts, the other changes in financial assets and liabilities account shows changes in financial positions that arise for reasons other than transactions between residents and non-residents. These changes are also called "other flows." Examples include the unilateral cancellation of debt by the creditor, holding gains and losses, and reclassifications (including arising from resident-to-resident transactions in financial assets issued by non-residents). In international accounts, other changes are recorded only for financial assets and liabilities because the International investment position relates only to external financial assets and liabilities.	In the external accounts, the other changes in financial assets and liabilities account shows changes in financial positions that are not than transactions These changes are also called "other flows" and consist of other changes in the volume of financial assets and liabilities and revaluations. Examples of other changes in volume include the unilateral cancellation of debt by the creditor and reclassifications (including arising from resident-to-resident transactions in financial assets issued by non-residents) while revaluations consist of holding gains and losses. In the external accounts, other changes are recorded only for financial assets and liabilities because the International investment position relates only to external financial assets and liabilities.
9.3	Other changes differ from transactions in terms of their economic nature and accounting entries. A transaction is an interaction	Other changes differ from transactions in terms of their economic nature and accounting entries. A transaction is an interaction

	between two institutional units by mutual agreement or operation of the law, whereas other changes are changes in the value or volume of assets and liabilities that arise from other economic events. Each transaction involves two accounting entries for each party, as does reclassification, but other events recorded in this account involve a single entry for each party. For additional aspects of accounting for other changes, see also paragraphs 3.19–3.21 (types of other flows), 3.60 (timing), and 3.81–3.83 (valuation).	between two institutional units by mutual agreement or operation of the law, whereas other changes are changes in the value or volume of assets and liabilities that arise from other economic events. For additional aspects of accounting for other changes, see also paragraphs [3.19–3.21] (types of other flows), [3.60] (timing), and [3.81–3.83] (valuation).
9.5	Together with the financial account, the other changes in financial assets and liabilities explain changes in the INTERNATIONAL INVESTMENT POSITION. In other words, financial assets and liabilities gain or lose value and appear or disappear as a result of transactions, other volume changes, or revaluations. This relationship can be expressed as the following identity:	Together with the transactions recorded in the financial account, the other changes in financial assets and liabilities explain changes in the INTERNATIONAL INVESTMENT POSITION. In other words, financial assets and liabilities gain or lose value and appear or disappear as a result of transactions, other volume changes, or revaluations. This relationship can be expressed as the following identity, which is an integral part of the standard presentation of the external accounts:
9.7	Other changes in the volume of financial assets and liabilities are any changes in the value of these assets that are due neither to transactions nor to revaluation. These changes include those due to cancellation and write-offs, economic appearance and disappearance of assets, reclassification, and the changes in financial assets arising from entities changing their economy of residence. Because of the heterogeneous nature of other changes in volume, analysts may sometimes wish to identify the major components. Changes in volume can occur because of transactions or other changes in volume.	Other changes in the volume of financial assets and liabilities are changes in the value of these assets or liabilities that are neither transactions nor revaluations. They include amongst others, economic appearance and disappearance of financial assets and liabilities, catastrophic losses, cancellations and write-offs of debt, uncompensated seizures, reclassification, and the changes in financial assets arising from entities changing their economy of residence. Because of the heterogeneous nature of other changes in volume, analysts may sometimes wish to identify the major components. While other changes in volume are part of the standard presentation, “of which” items for cancellations and write-offs of debt and reclassifications are included in the external accounts as supplementary items.

UK Statistics Authority

9.9	Changes in claims resulting from write-offs are excluded from the financial account. Specifically, a creditor may recognize that a financial claim can no longer be collected because of bankruptcy or other factors and it may remove the claim from its balance sheet. This recognition (by the creditor) should be accounted for as other changes in volume of assets. (The corresponding liability should also be removed from the balance sheet of the debtor.)	Changes in claims resulting from write-offs are excluded from the financial account. Specifically, a creditor may recognize that a financial claim can no longer be collected because of bankruptcy or other factors and it may remove the claim from its balance sheet. This recognition (by the creditor) should be accounted for as other changes in volume of assets. (The corresponding liability should also be removed from the balance sheet of the debtor.) If there is collateral, only the part of the claim that is not covered by the collateral should be recorded as other changes in volume. The remaining part should be treated as a repayment of the original instrument with a corresponding transaction that would account for the creditor taking economic ownership of the collateral (see also paragraph [9.13]).
9.12d	Governments or other institutional units may take possession of the assets of other institutional units, including non-resident units, without full compensation for reasons other than the payment of taxes, fines, or similar levies. If the compensation falls substantially short of the values of the assets as shown in the balance sheet, the difference should be recorded in other changes in volume as an increase in assets for the institutional unit doing the seizing and a decrease in assets for the institutional unit losing the asset. Such actions are called uncompensated seizures of assets in the 2008 SNA. For seizures between residents and non-residents relating to nonfinancial assets, a supplementary item can be recorded.	Governments or other institutional units may take possession of the assets of other institutional units, including non-resident units, without full compensation for reasons other than the payment of taxes, fines, or similar levies. If the compensation falls substantially short of the values of the assets as shown in the balance sheet, the difference should be recorded in other changes in volume as an increase in assets for the institutional unit doing the seizing and a decrease in assets for the institutional unit losing the asset. Such actions are called uncompensated seizures of assets. For seizures between residents and non-residents relating to nonfinancial assets, a supplementary item can be recorded. When entities are only indirectly impacted by uncompensated asset seizures through their ownership of entities that had their assets seized, then the impact should be recorded as other price changes rather than other changes in volume (see also paragraph [9.31a]).
9.14	A loan may become a security in the circumstances discussed in paragraph [5.45]. In that case, the	A loan may become a security in the circumstances discussed in paragraph [5.45]. In that case, the

	deduction of nominal value of the old loan is a reclassification, as is the appearance of the new security at market prices.	deduction of nominal value of the old loan is a reclassification, as is the appearance of the new security at market prices. Any difference between the two values at the time of conversion should be recorded as a revaluation of the loan (see also paragraph [9.33].

UK's adoption of industrial classification of economic activity

For Decision

NSCASE(24)17

Introduction

1. This paper provides options, consultation information and examples of how different approaches to industrial classification might affect UK economic statistics. The options for UK adoption of either the International Standard Industrial Classification of All Economic Activities (ISIC) or the Statistical Classification of Economic Activities in the European Community (NACE) were initially brought to the National Statistician's Committee for Advice on Standards for Economic Statistics (NSCASE) in June 2022 (NSCASE(22)02), with subsequent updates in October 2022 (NSCASE(22)03), October 2023 (NSCASE(23)31) and April 2024.

2. The Office for National Statistics (ONS) prepared a consultation process to gather feedback from UK SIC users on the impacts of potential classification changes. The public consultation would be primarily aimed at statistical users but also other classification users from across the UK. The consultation would aim to understand the impact on users from a revision of the classification system.

3. This consultation ran for a total of 12 weeks, opening on the 31st of October 2023 and closing on the 23rd of January 2024. Responses were received from 51 external and 10 internal stakeholders with a diverse set of user needs. Users were categorised into OGD/Councils, Private Companies, Private Individuals and Trade Bodies, and Associations and Organisations (TBAO).

4. ONS proposes the use of NACE as its classification base position and where necessary use bespoke classification for divisions where it feels it is more appropriate, therefore advocating Option D below.

5. **ONS asks NSCASE to review the content of this paper and provide advice to the national statistician on which option (if any) best captures the UK economy's industrial structure. The options are listed as follows:**
    a. **Option A – Adopt ISIC**
    b. **Option B – Adopt NACE**
    c. **Option C – Adopt ISIC as the default and create bespoke classifications where appropriate**
    d. **Option D – Adopt NACE as the default and create bespoke classifications where appropriate**

Background

The importance of underlying classifications for UK economic statistics outputs

6. An update of industrial classifications is not a regular event, and is an opportunity to ensure new classifications capture changes and detail which are relevant for the UK economy.

   The last time industrial classifications were changed and updated into ONS economic compilation systems was SIC07, implemented into the economic statistics outputs fully in 2011. Sequencing meant that annual survey data was available on the new classification three years prior (in 2008), with short term surveys following later. So the full implementation took 3 to 4 years.

7. Other NSIs have progressed quickly on updating to the latest classifications. For example, Statistics Netherlands are part of the European Statistical System and align to NACE. Statistics Netherlands have already published in April 2024 their new classification standards (SBI 2025[1]). For context, their SBI 2008 had 478 5 digit codes, whereas their SBI 2025 has 375. Separately, Australian and New Zealand ran a consultation[2] on their bespoke ANZIC classification structure.

8. In the context of ONS, the choice on the approach for the detail in the classification will underpin a wide range of changes. From data collection, through to system updates, and then production outputs. The ONS will look to move quickly to ensure enough time is allocated to update the underlying statistical infrastructure and processing, alongside other transformation changes that are happening (e.g. new business register).

9. At the April 2024 NSCASE meeting, committee members requested examples of when the UK may wish to choose a different industrial classification option, other than simply adopting NACE (Option B), when creating classification sub-classes underneath NACE categories. Industry examples of where ONS anticipates it will need greater sub-category classification, below that of NACE categories are discussed below.

---

[1] Standaard Bedrijfsindeling (SBI) | CBS - Statistics Netherlands new classification approach (in Dutch)
[2] Help Shape the Future of Classification on Industries in Australia - Australian Bureau of Statistics - Citizen Space (abs.gov.au)

10. In response to that request this paper outlines examples from the financial services and motor trades industries, where prioritising category splits in the classification hierarchy reflects the UK economy's unique industrial structure.

11. Diversion from NACE would only happen if the Economic Statistics and Environment Group (ESEG) had identified a clear and substantial advantage in choosing another classification option, either from their own research work or from discussions with and suggestions from other stakeholders.

12. The ONS believes the use of five-digit sub-classes is helpful in terms of statistically defining the UK's industrial structure and regardless of which option is selected, the capability of using five digit sub-classes should remain. The UK currently has 191 5-digit sub-classes based on SIC 2007.

Examples

Financial sector

13. One of the key detail differences between ISIC and NACE relates to the financial services activities division where ISIC is the more granular classification system, as set out in the following table.

NACE Rev. 2.1	ISIC Rev. 5
64.3 – Activities of trusts, funds and similar financial entities	643 – Activities of trusts, funds and similar financial entities
64.31 – Activities of money market and non-money market investment funds	6431 & 6432
64.31	6431 – Activities of money market funds
64.31	6432 – Activities of non-money market investments funds
64.32 – Activities of trust, estate and agency accounts	6433 – Activities of trust, estate and agency accounts
64.9 – Other financial service activities, except insurance and pension funding	649 – Other financial service activities, except insurance and pension funding
64.91 – Financial leasing	6491 – Financial leasing activities
64.92 – Other credit granting	6492, 6493, 6494 & 6495
64.92	6492 – International trade financing activities
64.92	6493 – Factoring activities
64.92	6494 – Securitisation activities

64.92	6495 – Other credit granting activities
64.99 – Other financial service activities, except insurance and pension funding n.e.c	6499 – Other financial service activities, except insurance and pension funding n.e.c

14. As the greater detail of financial activity offered by ISIC is more closely aligned with ESEG and the BOE requirements. Furthermore, ISIC has a better alignment with the institutional sub-sector classification of the SNA - MMFs and Non-MMFs are two separate sub-sectors - having this in the SIC makes it much easier to compile sector accounts which makes a case for adopting ISIC rather than NACE. However, there's also a case for creating sub-classes based on NACE or ISIC categories. By way of example, ISIC splits securitisation activities between two classes depending on the assets being securitised, despite ESEG and the BOE being unsure this was the correct approach. In this case therefore, the optimal approach for ONS and the BOE would be to define financial activity by NACE category and subsequently ISIC sub-classes (Option D above).

Wholesale and retail of motor vehicles

15. The current UK SIC structure used to describe the wholesale and retail of motor vehicles is useful because it makes the distinction between wholesale and retail of new cars and of used cars. It also makes the distinction between the sale of cars and the sale of other motor vehicles (which includes vehicles like caravans and motorhomes).

16. As part of the SIC consultation process ESEG advocated unsuccessfully for there to be a split for motor vehicles by their environmental category in ISIC and/or NACE in terms of,
    a. Internal combustion engine
    b. Electric vehicle
    c. Hybrid
    d. Hydrogen

17. As such, it would be helpful to include this detail in the new iteration of industrial classification (NACE/ISIC) guidance the UK uses in the future. However, there is more than one way of achieving this, the other would be to do so via products, and there are pros and cons associated with each way. These advantages and disadvantages need to be considered in the hierarchical context of classification for NACE and ISIC.

The importance of hierarchy

18. NACE and ISIC explain that units are classified according to their principal activity in terms of value added (or a relevant proxy) using the top-down method. The top-down method follows a hierarchical principle which leads to the classification of a unit at the lowest level being consistent with the classification of the unit at the higher levels of the structure. To satisfy this condition the process starts with identification of the relevant category (the one with the greatest value added or relevant proxy) at the section level, then division level, then class, then sub-class. NACE gives the following classification example to help readers follow the process:

- Identify the main Section among

Section C - Manufacturing	52%
Section G - Wholesale and retail trade; repair of motor vehicles and motorcycles	35%
Section M - Professional, scientific and technical activities	13%

- Identify the main Division within main Section C:

Division 25	Manufacture of fabricated metal products, except machinery and equipment	10%
Division 28	Manufacture of machinery and equipment n.e.c.	42%

- Identify the main Group within the main Division 28:

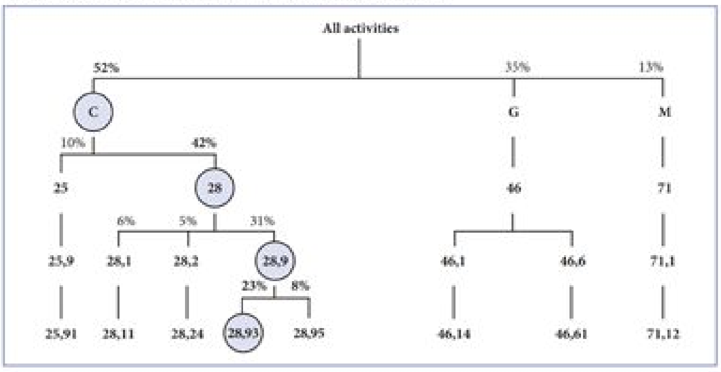
Group 28.1	Manufacture of general-purpose machinery	6%
Group 28.2	Manufacture of other general-purpose machinery	5%
Group 28.9	Manufacture of other special-purpose machinery	31%

- Identify the main Class within the main Group 28.9:

Class 28.93	Manufacture of machinery for food, beverages and tobacco processing	23%
Class 28.95	Manufacture of machinery for paper and paperboard production	8%

Therefore the correct class is 28.93 Manufacture of machinery for food, beverages and tobacco processing, although the class with the biggest share of value added is class: 46.61 Wholesale of agricultural machinery, equipment and supplies.

The following picture represents the decision path followed in the example.



19. When thinking how to apply this logic to the retail sale of motor vehicles, it’s important to note that ISIC and NACE have one class allocated to retail sale of motor vehicles, as detailed below:

47.8 Retail sale of motor vehicles, motorcycles and related parts and accessories
47.81 Retail sale of motor vehicles
47.82 Retail sale of motor vehicle parts and accessories
47.83 Retail sale of motorcycles, motorcycle parts and accessories

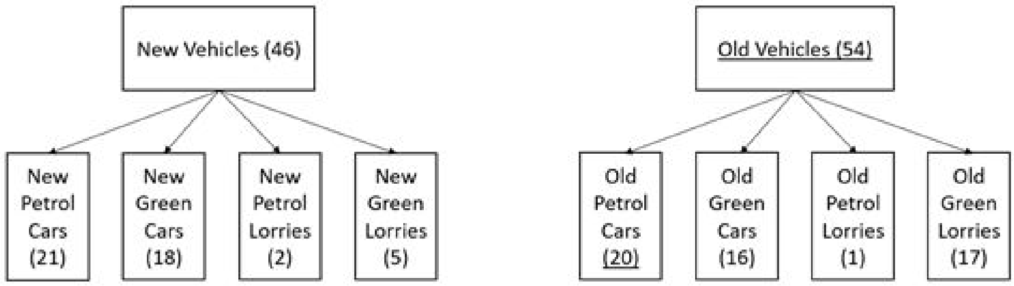
20. As such, the UK has several different options in terms of how to create the classification splits it requires for analytical usefulness. In the following examples the splits have been simplified and are based on new/old (age category), petrol/green (environmental category) and cars/lorries (type category) to make the options easier to describe. It’s assumed that the unit creates 100% of its value-added from NACE category 47.81 (retail sale of motor vehicles).

21. The first way the UK could create a classification split is by splitting the one ISIC/NACE class into eight different classes or sub-classes in the following way:

New Petrol Cars	New Green Cars	New Petrol Lorries	New Green Lorries	Old Petrol Cars	Old Green Cars	Old Petrol Lorries	Old Green Lorries
21	18	2	5	20	16	1	17

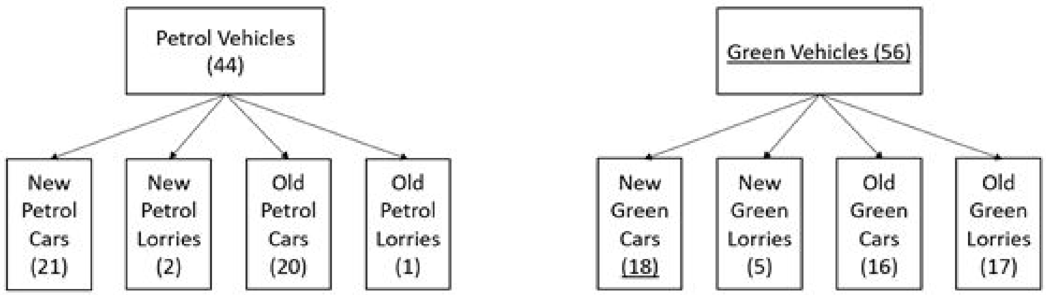
In this instance the retail sale of motor vehicles would be classified as selling new petrol cars and all the output associated with it would fall under that category. At face value this seems reasonable, but in reality the unit actually creates more value-added from old vehicles and from green vehicles.

22. Another way of engineering the classification split would be to create two classes based on the age category with the sub-classes based on the environmental category and the type category:



23. In doing so the unit would be classified as selling old petrol cars and the output would be more appropriately allocated in terms of the new/old split.

24. While the retail sales of motor vehicles unit creates more value-added in terms of green vehicles, this hierarchy would lead to all of its output being considered to be in relation to petrol vehicles. The diagram below shows what would happen if the first split was by environmental category:



25. When making this split the unit would be classified as selling new green cars rather than old petrol cars or new petrol cars. The output would be allocated more accurately in terms of the environmental split; however, it wouldn't be allocated 'correctly' in terms of the age split. This is because the sub-category of green vehicles with the highest value-added is new green cars although the "old" categories unit creates more value-added on the whole.

26. This example highlights that hierarchy structure significantly impacts unit classification, with higher-level classifications having a greater effect. On this

basis, the ONS is therefore more likely to produce accurate statistics for higher-level splits, emphasizing the importance of prioritisation.

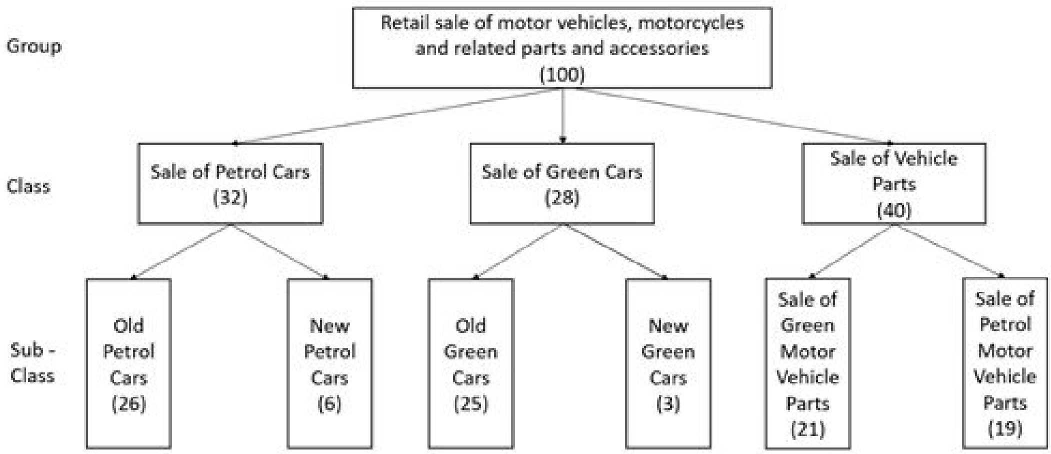
27. This example illustrates that generating additional sub-classes without prioritization increases the likelihood of selecting a category that does not accurately represent any of the industrial splits.

30. The examples above were created on the assumption that any classification split made at a class level does not lead to the new classes having a lower proportion of value-added than any other classes under the same group.

31. The new categories in NACE (see below), under group 47.8, are classes for "retail sale of motor vehicle", "retail sale of motor vehicle parts and accessories", and "retail sale of motorcycles and motorcycle parts".

47.8 Retail sale of motor vehicles, motorcycles and related parts and accessories
47.81 Retail sale of motor vehicles
47.82 Retail sale of motor vehicle parts and accessories
47.83 Retail sale of motorcycles, motorcycle parts and accessories

32. The examples in the last subsection presupposed that the hypothetical unit only sold motor vehicles. However, let's say instead that 60% of the value added came from the sale of motor vehicles and 40% came from the sale of motor vehicle parts, split in the following way using the UK's bespoke categories:



33. If the unit was classified using NACE categories ("sale of motor vehicles", and "sale of motor vehicle parts") the class with the largest amount of value-added

would be the "sale of motor vehicles". However, if the UK classification split was used, the class with the largest amount of value-added would be "sale of motor vehicle parts".

34. This would ordinarily be a problem as it would mean that increased granularity would give rise to a lack of comparability between a derived classification and its related reference classification because the same unit would be classified differently when using the different hierarchies. However, Eurostat has already foreseen this issue, explaining that: *"Because of the difficulties between ISIC and NACE at group and class levels, the application of the top-down method to NACE may give allocations different from those which would be obtained applying the method to ISIC. If possible, the method should be followed first in terms of ISIC, identifying the ISIC class, and then in terms of NACE. This would ensure alignment with world classifications."*[3]

35. It's likely the word 'differences' rather than 'difficulties' was meant to be used but the key point is that when using NACE, an NSI is supposed to classify a body according to its ISIC classification before then classifying the body according to its NACE classification.

36. Using the diagram above as an example, the unit's NACE class (with the greatest value-added of all classes) would be retail sale of motor vehicles. Once that's been identified the top-down approach would be applied to the more specific UK categories meaning sale of petrol cars would be chosen before sale of old petrol cars was chosen.

37. The structure of a unit's hierarchy impacts the prioritization of splits higher up the hierarchy during classification. In most cases, the ONS and/or the UK may have a preference for certain classification splits, making it preferable to create new classes from NACE or ISIC categories rather than an extensive list of sub-classes to better describe the UK economy.

38. In this context, the UK must determine whether the classification process should begin by classifying a unit according to the NACE hierarchy or the ISIC hierarchy, followed by further classification based on the greater detail we wish to have in the UK hierarchy. The ONS's decision may be influenced by observing practices within the European Statistical System (ESS), to for instance, maintain international comparability.

[3] Eurostat (2008) – Point 72
https://ec.europa.eu/eurostat/documents/1965800/1978839/NACEREV.2INTRODUCTORYGUIDELINESEN.pdf/f48c8a50-feb1-4227-8fe0-935b58a0a332

UK Statistics Authority

Statistical balance in determining classification

39. The UN publishes best practice guidelines on classifications which also need to be taken into consideration. The guidelines explain the concept of statistical balance which means that a statistical classification should not have categories at the same level in its hierarchy that are too disparate in their population size. The guidelines further explain that a characteristic of a good classification is that the categories are well balanced within the limits set by the principles for the classification (i.e. not too many or too few categories). This is usually established by applying significance criteria (e.g. size limits on variables such as employment, turnover, etc.).

40. As such, a UK SIC structure that saw a relatively small number of classes with an inordinate number of sub-classes could be perceived as awkwardly designed and might be contrary to best or sensible practice. Structuring UK SIC in such a way might suggest implicitly that not enough thought had gone into the higher levels of the hierarchy in terms of how to best balance the different category splits, which could undermine credibility and adherence to the SIC structure.

41. It may be that the UK thinks the importance of hierarchical prioritisation (as explained earlier in the paper) outweighs the importance of statistical balance. However, both factors should be considered together when deciding on individual strands of the SIC structure and both factors represent reasons not to simply create lots of sub-classes under the NACE categories.

Conclusion

42. This paper outlines several of the economic and statistical considerations ONS has reviewed in arriving at its preferred option for future industrial classification, namely adopting NACE as the baseline and retaining the flexibility of using either NACE or ISIC to define sub-classes of economic activity (Option D).

43. Adopting this option would ensure that two principles of economic measurement are satisfied, namely that industrial classifications reflect the

UK's unique industrial structure and secondly that international comparability is maintained at an industrial class (NACE) level.

References

Statistic Netherlands (2024)
Standaard Bedrijfsindeling (SBI) | CBS

Australian Bureau of Statistics (2023)
Help Shape the Future of Classification on Industries in Australia - Australian Bureau of Statistics - Citizen Space (abs.gov.au)

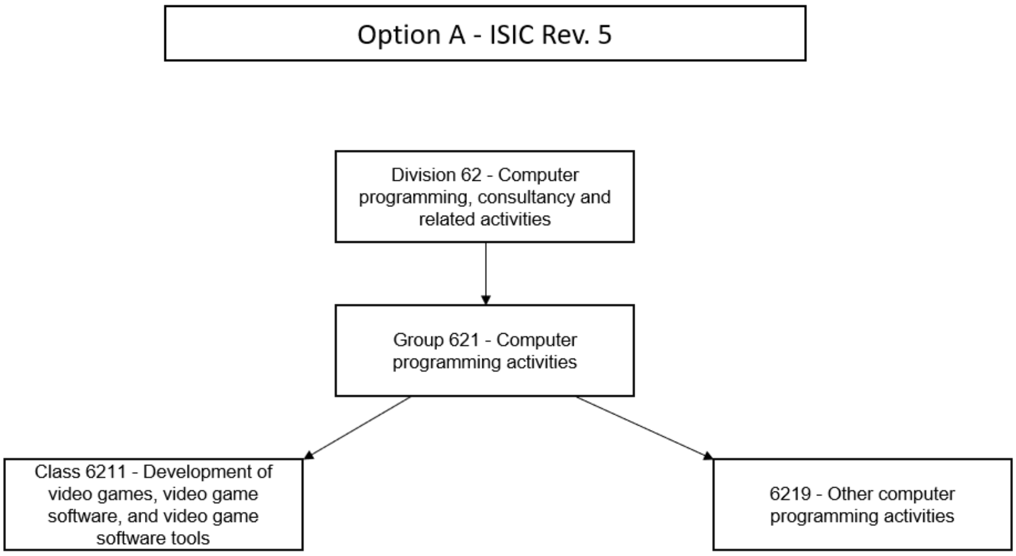
Eurostat (2008)
https://ec.europa.eu/eurostat/documents/1965800/1978839/NACEREV.2INTRODUCTORYGUIDELINESEN.pdf/f48c8a50-feb1-4227-8fe0-935b58a0a332

Annex 1 – Further Examples

The ONS Perspective Example – Using ISIC Rev. 5 as a base

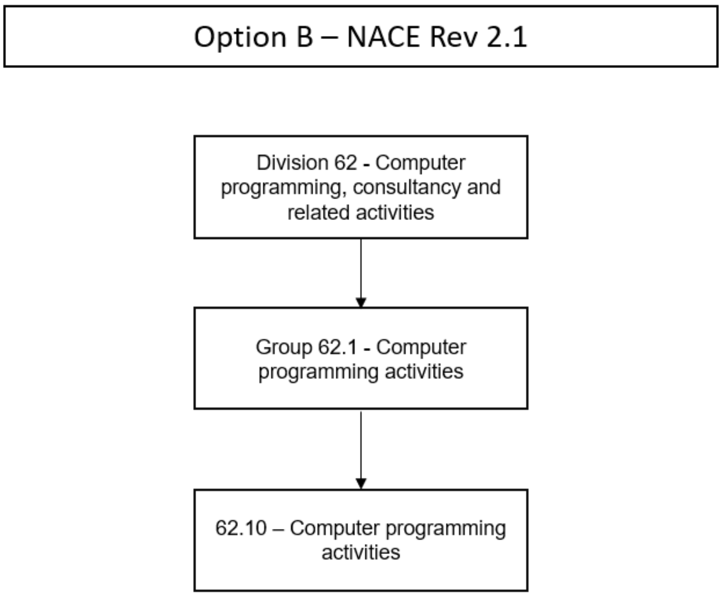
One of the areas highlighted by our stakeholders was a need for additional granularity for the video game industry; this was highlighted by both DCMS and UKIE. During the revision process for ISIC, UKIE highlighted to us that they wanted "for three games industry classes, one retained at 5821 covering publishing and two created under division 62, one covering video game development and another covering development of video game support software, tools, engines and other middleware". This would bring the video game industry in alignment with the film-making industry, which also has three classes related to it.

ISIC Rev. 5 (Option A)



The revised version of ISIC (ISIC Rev. 5) has partially implemented the changes that were wanted by DCMS and UKIE. A new class has been added in division 58, 5821 – "Publishing of video games" and a new class has been added in division 62, 6211 – "Development of video games, video game software, and video game software tools". If this option were to be implemented, the only difference from UKIE/DCMS's proposal would be a separate class to capture the "development of video games". Depending on the number of businesses in the industry, this could be captured by adding a 5th digit under class 6211.

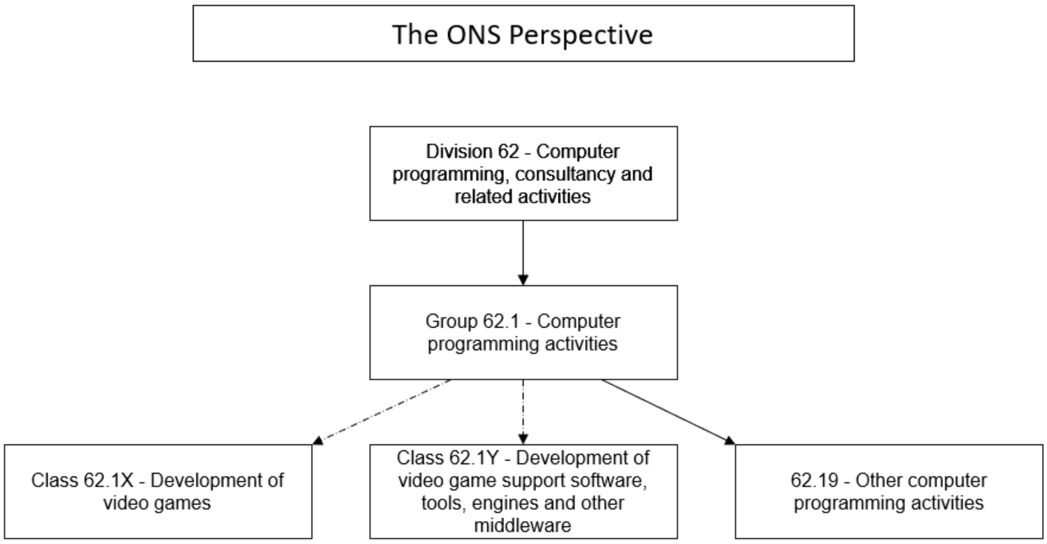
NACE Rev. 2.1 (Option B)



The revised version of NACE (NACE Rev. 2.1) has not implemented the changes that were wanted by UKIE. While there has been an effort to make NACE and ISIC more closely aligned, in this instance, NACE is the less granular of the two classifications. NACE has maintained the class 58.21 - “Publishing of video games” but, it has not added additional classes in group 62.1 to capture the development of video games nor video game support software. Again, this additional granularity wanted could be captured by a 5th digit depending on the number of businesses captured by the code.

The ONS Perspective

As stated previously, this is one of the few scenarios where ISIC is the more granular classification. While external respondents have responded that they would prefer option B for a myriad of reasons, in this specific scenario, option B would not best meet the needs of our stakeholders. However, by implementing the ONS perspective, we can make the most of our newfound flexibility, while also maintaining our comparability with our European and wider International counterparts. For example, we could build on the more granular ISIC to make this area of the framework more reflective of the UK economy; effectively implementing option C in this area of the classification. If the suggestions made by DCMS and UKIE were implemented, it could look like the following:

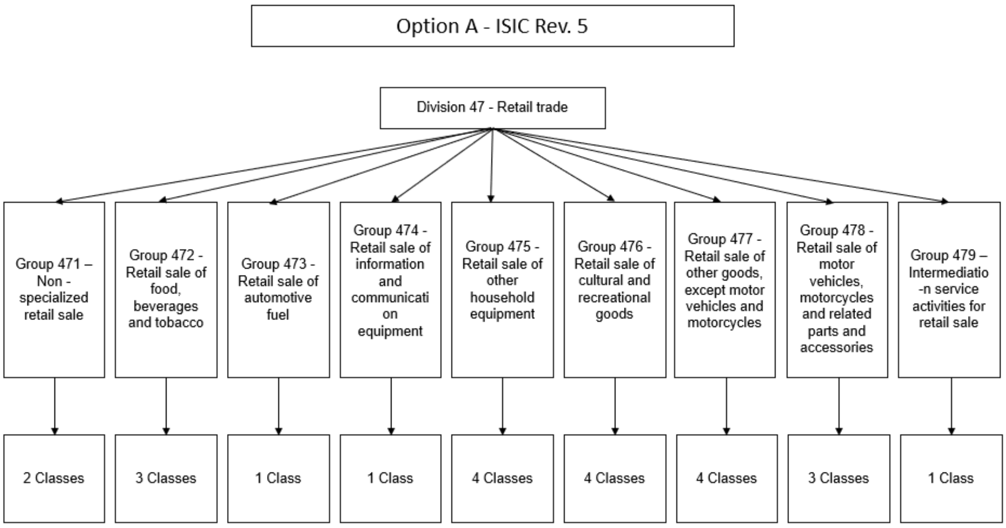


Key:
= The existing structure
= The example changes

The ONS Perspective Example – Adding granularity that has been removed/Using NACE as a base

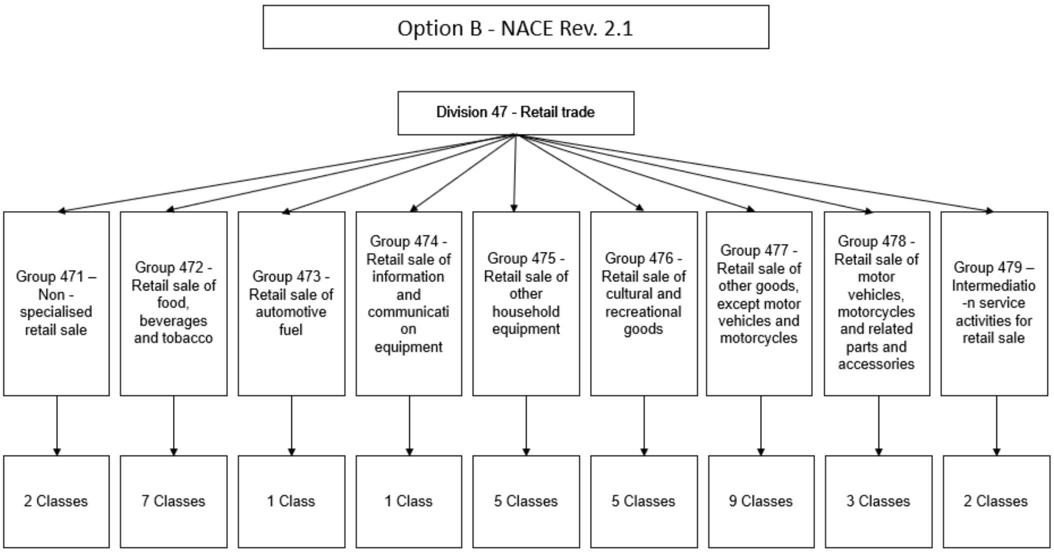
The previous iterations of ISIC and NACE (as well as SIC 2007), make a distinction in division 47 between in-store and non-store retail trade at the group and class level. This distinction was removed in the latest revision cycle, due to it being increasingly harder to distinguish a retailer’s primary sales method, as more retailers have started selling both in store and online. While a distinction does remain between specialised and non-specialised stores, the groups and classes associated with non-store retail trade have been removed. This could be one of the areas that could be re-added during the revision process of UK SIC if we were to implement the ONS perspective.

ISIC Rev. 5 (Option A)



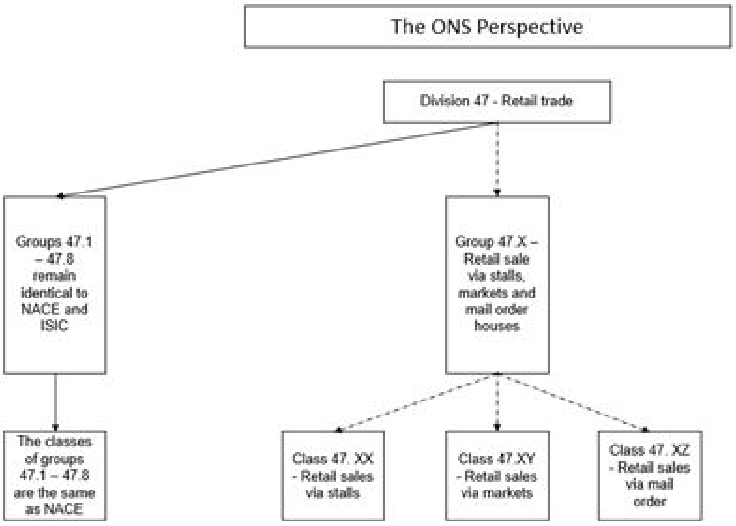
The revised version of ISIC (ISIC Rev. 5) has removed groups 478 – "Retail sale via stalls and markets" and 479 – "Retail trade not in stores, stalls or markets" and their associated classes. The contents of these groups and classes, have predominantly been reallocated across the other nine groups and classes in division 47. The two removed groups have been replaced with two new groups and four new classes. Group 478 was added to classify the retail sale of vehicles, motorcycles, and related parts & accessories. This was previously covered in division 45 but the division was removed during the revision of ISIC and NACE so that the classification of motor vehicles is consistent with the rest of the classification. As this is a change that occurs at the divisional level, we cannot undo this amendment. Alongside this Group 479 was added to the division to better classify intermediation activities pertaining to retail sale.

NACE Rev. 2.1 (Option B)



The structure of NACE Rev. 2.1 is similar to that of ISIC Rev. 5 regarding division 47. NACE has also made the same changes that ISIC has, with both classifications being identical at the group level. However, at the class level, NACE is much more granular with it having 35 classes compared to the 23 classes found in ISIC. Overall, this additional granularity could make NACE the preferred option or the ideal foundation to build on.

The ONS Perspective



In the above example, groups 47.1 to 47.8, and their associated classes, are the same as the one's used in the revised version of NACE; this is the same as going with Option D. From this, a new group was added to capture retail sale via stalls, markets, and mail order houses, adding back in the granularity that had been removed. Additionally, three classes have been added to classify each of the three areas. If needed, fifth digits could then be added to capture the type of good being sold (i.e. 47.XX/X – Retail sale of food, beverages and tobacco via stalls). Continuing to use this group in the revised version of UK SIC, would create some issues concerning the structure of the division. The methodology of the classifications only allows for 9 groups in each division, if a group for retail sale via stalls, markets and mail order houses were to be added, a group would have to be removed. In this example, group 479 has been removed. Group 478 could also be removed but, since division 45 – "Wholesale and retail trade and repair of motor vehicles and motorcycles" has been removed in this revision cycle, removing this group could cause further issues for parties interested in the sector.

Correspondence Table

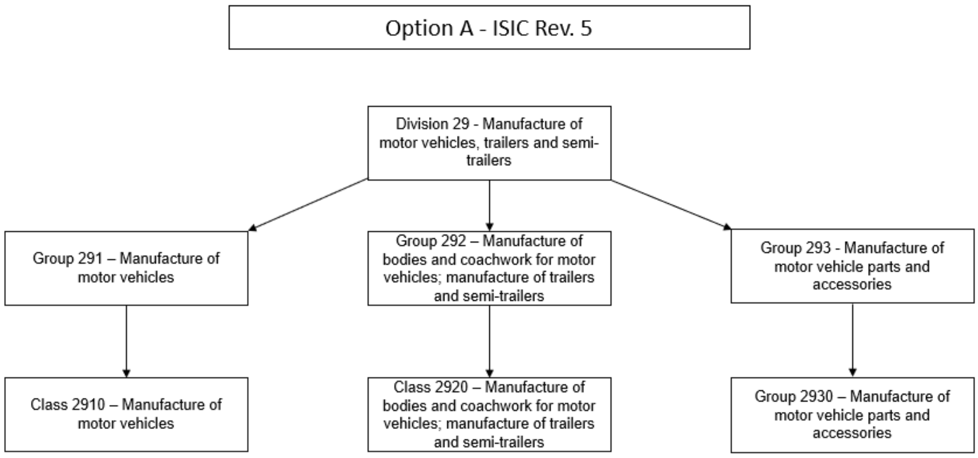
ISIC Rev. 5	*NACE Rev. 2.1*	*The ONS Perspective*

471;472;474;475;476; 477;478	*47.1;47.2;47.4;47.5;47.6; 47.7;47.8*	*47.X*
Dependent on the good being sold	*Dependent on the good being sold*	*47.XX*
Dependent on the good being sold	*Dependent on the good being sold*	*47.XY*
Dependent on the good being sold	*Dependent on the good being sold*	*47.XZ*

The ONS Perspective Example – The Motor Vehicle Industry

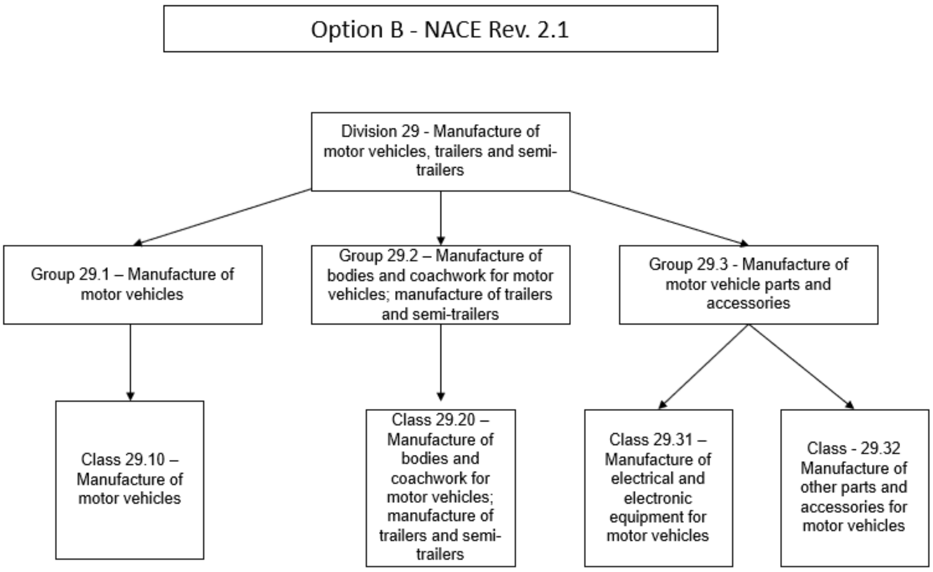
No external responses have referred or requested this, but it is an example where the ONS could make the most of the newfound flexibility available to us.

ISIC Rev. 5 (Option A)



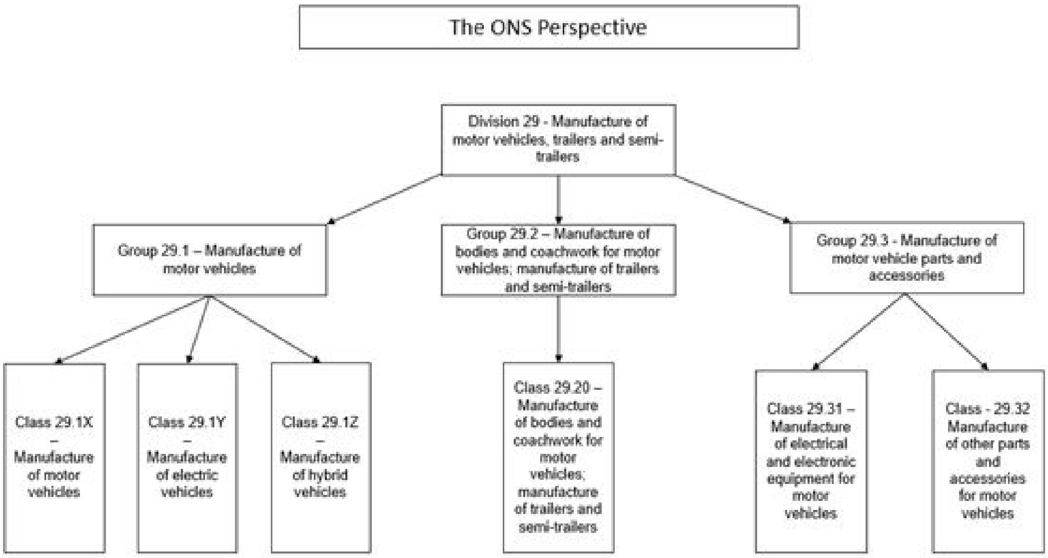
While other areas of the classification have seen significant revision during the revision process of ISIC Rev. 5, division 29 has remained the same. ISIC still uses the same structure of three groups, with each group having a singular class. If the UK were to adopt ISIC in this instance, it is unlikely that this would provide enough granularity to classify the UK motor vehicle manufacture industry and would be a step backwards on what is currently used in terms of granularity. On the other hand, depending on the demand, additional subclasses could be implemented to add additional granularity.

NACE Rev. 2.1 (Option B)



Similarly, NACE has also chosen not to revise the structure of Division 29, with the contents and structure being identical to its format in NACE Rev. 2. The structure of Division 29 in NACE remains identical to ISIC down to the group (3 digit) level, with it also using three groups. The only difference between the two classifications is found at the class level (4 digit) , where NACE makes use of a fourth class compared to the three found in ISIC. This additional class adds additional granularity to group 29.3, with it separating out the “Manufacture of electrical and electronic equipment for motor vehicles”.

The ONS Perspective



In the above example, groups 29.2 and 29.3, and their associated classes, are the same as the one's used in the revised version of NACE; this is the same as going with Option D. Alongside this, the content of group 29.1 is the same as NACE but with a more granular structure at the class level. The original structure of NACE uses a singular class in group 29.1 to classify the manufacture of motor vehicles. This has been separated into three individual classes to capture the manufacture of motor vehicles, electric vehicles and hybrid vehicles separately. Again, depending on the demand/need for this structure, it could instead be revised at the subclass level.

Correspondence Table

SIC Rev. 5	NACE Rev. 2.1	The ONS Perspective
291	29.1	29.1
2911	29.10	29.1X; 29.1Y; 29.1Z
2911	29.10	29.1X
2911	29.10	29.1Y
2911	29.10	29.1Z
292	29.2	29.2
2920	29.20	29.20
293	29.3	29.3
2930	29.30	29.30

Briefing NSCASE: Note of International Manual and Classification Updates

Introduction

This short note provides an outline of which international manuals and classifications are being updated by 2027 and 2028. The note has been complied following a request from the Chair and Vice Chair to view the UKs response to the GFSM questionnaire.

The ONS does not wish to bring substantial items to the committee on these manuals at this time.

Government Finance Statistics Manual

The IMF Statistics Department has launched the update of the *Government Finance Statistics Manual 2014 (GFSM 2014)* targeting to complete this process by December 2027.

The *GFSM 2014* update follows updates to the *2008 System of National Accounts* (*2008 SNA*) and the Sixth Edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*) which have a target release date of March 2025.

The *GFSM 2014* update has two key objectives:

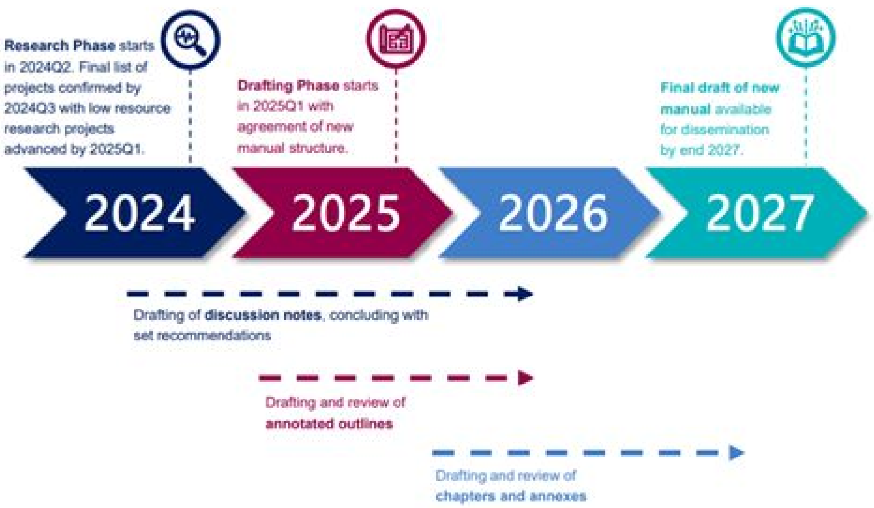
1. **Harmonization with other statistical standards** to ensure consistency in common areas of guidance and
2. **Meeting user needs** by providing additional guidance and clarity for evolving fiscal policy.

The IMF's Government Finance Statistics Advisory Committee (GFSAC) is a group of experts from across all regions of the IMF membership and provide advice to the IMF. In April 2024 they endorsed key decisions about the process and timeline for updating the *GFSM 2014* as well as the Research Programme. The IMF's Government Finance Statistics Advisory Committee (GFSAC) approved a Strategy on the Effective Engagement of the GFS Community in the International Statistical Standards Update Process (henceforth the Strategy on Effective GFS Engagement), 2 in December 2020.

IMF are now consulting on the key decisions endorsed by the GFSAC to gather views primarily on the research programme for updating the GFSM 2014 and on the proposed process and timeline for updating the GFSM 2014. The UK have summitted a coordinated response to this as seen at Annex A.

The update of the GFSM 2014 is proposed to follow two phases. Like the updates of the 2008 SNA and BPM6, the update process for GFSM 2014 is proposed to contain a research phase (Phase I) and a drafting phase (Phase II). During Phase I, research projects will be identified, prioritised and, through Task Teams, will be developed into discussion notes. Phase I will conclude with a set of final decisions on how to update the GFSM 2014. Phase II will focus on drafting of the manual, including preparation of annotated outlines, drafting of chapters and annexes, as well as the final approval processes. The sequencing of activities within the different phases allows for the process of drafting the manual to begin before research for all projects has concluded that is, there will be some overlap between the phases. Consultation of the GFS community will play a key role in the update process and will be embedded into both phases. It is important to note that the process may evolve as it progresses.

Figure 1: Overview of Proposed Timeline



Source: [IMF]

System of Economic and Environmental Accounts

The United Nations Committee of Experts on Environmental-Economic Accounting (UNCEEA) at its 18th meeting, held in 2023, agreed to an update of the SEEA Central Framework (SEEA CF) with a focused scope. In 2024, at the 55th Session of the UN Statistical Commission, the Commission endorsed the proposed update of the SEEA Central Framework (English draft report subject to editing available here).

The SEEA CF Technical Committee (TC), with UNSD as Secretariat, will lead the management of the SEEA CF update process. The role will include establishing and endorsing a detailed programme of work, identifying consultants and reviewers as required, leading engagement with multiple stakeholders and ensuring that guidance notes and resulting documents undergo the appropriate process for endorsement.

The SEEA CF update will follow a three-pronged approach: (a) undertaking technical research and reaching recommended guidance on a set of specific issues; (b) engaging in progressive rounds of inclusive, global consultations and review; and (c) coordination and collaboration with different stakeholders.

A list of issues will be identified for the update of the SEEA CF. The criteria for selecting these issues will include the policy impact and urgency with which those issues should be addressed in order to provide policy-relevant data; conceptual impact for the SEEA CF and its alignment with other statistical standards; the complexity of the conceptual issue and the extent to which it can be resolved within the current framework, or requires changes to the conceptual framework; and the time required to make progress on these issues internationally.

Dedicated task teams will be established to undertake the technical research and draft guidance notes for the list of issues.

Timeline of the SEEA CF update process and deliberation of issues:

The ultimate output of the update process is an updated SEEA CF to be submitted for approval by the UNSC at its 59th session. During the update process, intermediate outputs will be prepared consisting of the following: (a) A number of standalone guidance notes to resolve key issues from the update issue list reflecting the latest advances in methodology; and (b) Consecutive drafts of the updated SEEA CF chapters.

Activity	Timeline	Agency/country responsible
List of issues and preliminary work		
• Identify sources of funding	Q1-Q3 2024	Bureau, Secretariat
• Agreement on the updated list of issues and prioritization by the Bureau and broader UNCEEA	Q1-Q2 2024	SEEA CF TC, Bureau, UNCEEA
• Discussion at UNSC	Q1 2024	UNCEEA
• Identification of task team leads, authors of topic papers	Q1-Q2 2024	SEEA CF TC, Secretariat
• Agreement on project management framework by UNCEEA	Q2 2024	UNCEEA
• Global consultation on list of issues	Q2-Q3 2024	Secretariat
• Commence work on high priority issues which can begin already	Q2-Q4 2024	SEEA CF TC, London Group
• Finalize list of issues for presentation to UNSC, taking into account resources secured	Q4 2024	SEEA CF TC, Bureau, UNCEEA
Issue papers		
• Drafting of all issue papers by task teams	2025	SEEA CF TC, London Group
• Staggered global consultation on the issue papers	Q1 2025 – Q2 2026	Secretariat
• Revision of issue papers	Q4 2025 - Q3 2026	SEEA CF TC
Updating SEEA CF text		
• Drafting relevant text to replace the text in the SEEA CF	Q2 2026 - Q3 2027	Editor
• Global consultation on the chapters	Q2-Q4 2027	Secretariat
Adoption of the SEEA CF	Q1 2028	UN Statistical Commission

Source: UNSD

Classification of the Functions of Government (COFOG)

COFOG is part of the set of Classifications of Expenditure According to Purpose which also include:

1. Classification of Individual Consumption by Purpose (COICOP)
2. Classification of the Purposes of Non-Profit Institutions Serving Households (COPNI)
3. Classification of the Outlays of Producers by Purpose (COPP)

COFOG has not been updated or revised since 1999.

COFOG was developed to understand the structure of government expenditures, to support the System of National Accounts (SNA) and Government Finance Statistics (GFS).

In March 2022, the UNSC recommended the revision of COFOG and an assessment of whether changes are required in the other classifications of expenditure according to purpose. In 2023, an inception meeting on the revision of COFOG for stakeholder consultation took place to discuss the main elements of the terms-of-reference of a Task Team on the COFOG revision and provide advice on how to assess whether changes to other classifications by purposes should be considered at the same time and by whom. In the UNCEISC meeting in Oct 2023, the importance of coordinating the update process of other macroeconomic standards, including GFS and the SEEA Central Framework was emphasised. It was recommended that the revision timeline should be developed considering the update process of other international standard processes.

The main drivers of the revision are based on emerging data needs for policy makers including: environmental expenditures, climate change and biodiversity, digitalisation, education, and official alternative structures along thematic areas.

The proposed revision timetable is as follows:

1. 2024: Initial meetings; global consultation on list of issues
2. 2025: Finalize list of issues and begin discussion
3. 2026: Finalize revision and present to UNCEISC for endorsement
4. 2027: Submit to UN Statistical Commission for approval

UNSD are currently setting the list of issues which has not been finalised. Once the list of issues is confirmed UNSD will establish task teams.

Dates	Tasks
January - February	Consultation meeting with key stakeholders (GFS, SNA and SEEA communities)
	Finalize the Terms of Reference at the UNCEISC Bureau meeting in February
March - April	Finalize membership of Task Team
	Develop an initial annotated outline of revision issue list
	Hold first meeting of the Task Team to discuss initial list of issues and Terms of Reference (late March/early April)
May - June	Submission period for initial list of issues
	Progress update at the 2024 UNCEISC meeting in May
	Meeting of the Task Team (June)
	Identification of Issue Leads
July - August	Finalize list of issues for global consultation
September - October	Conduct global consultation on the list of issues
	Meeting of the Task Team (early September)
	Progress update at the 2024 UNCEISC meeting in October
November - December	Meeting of the Task Team (late November/early December)
	Assess results of global consultation and finalize the list of issues

Source: UNECE

Collaboration
A discussion group will be established to bring all the leads of the Task Teams across GFSM, SEEA and COFOG together to ensure alignment and collaboration.

List of Annexes.

Annex A: UK response to GFSM priorities survey (to be added once response is submitted on 26th July).

Reference List

System of Environmental Accounting (2024)., Project management framework for the update

of the SEEA Central Framework. Draft incorporating UNCEEA feedback. URL: area_b1_project_management_framework_for_the_update_of_the_seea_central_framework.pdf (un.org)

IMF Finance division (2024) Global Consultation. Proposed Process and Timeline for Updating. IMF.

UNECE (2024) Update on the revision of the Classification of Functions of Government (COFOG). URL: https://unece.org/sites/default/files/2024-03/S3b_1_Update%20on%20COFOG%20revision%20process.pdf