

INTERNATIONAL MONETARY FUND

**Draft Outline of Update of *GFSM 2001*:¹
Issues Emerging from *2008 SNA* and corrections, or clarifications of *GFSM 2001***

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SUMMARY

The paper contains a brief description of the changes envisaged for the *Government Finance Statistics Manual 2001 (GFSM 2001)* in view of the changes in methodology incorporated in *2008 System of National Accounts* and other developments. Work on an update of the *GFSM 2001* is being initiated in 2010, with the objective of having a draft of the updated *GFSM* ready by mid 2012, about ten years after *GFSM 2001* was published. This paper is intended to provide clarification to government finance statistics compilers and users on the upcoming changes resulting from the adoption of *2008 SNA*. The paper also identifies some changes that may be made to the *GFSM 2001* that are unrelated to the adoption of the *2008 SNA*. These relate to improvements and clarifications to *GFSM 2001* based on practical experience in working with countries adopting *GFSM 2001*. The Taskforce on Harmonization of Public Sector Accounting was involved in the update of the *1993 SNA* and therefore the upcoming changes will already be familiar to some of the compilers. A formal consultative process for government finance statistics (GFS) compilers was established. The IMF has set up a GFS Discussion Forum (<http://forums.imf.org/gfsm/forum.php?styleid=3>) as well as an advisory committee to serve as platforms for international consultation.

I. INTRODUCTION

1. **In 2008 the United Nations Statistical Commission approved the *System of National Accounts 2008 (2008 SNA)*.** The final version of *2008 SNA* was released by the United Nations in September 2009.² Subsequently, the IMF Committee on Balance of Payment Statistics adopted *Balance of Payments and International Investment Position Manual (BPM6)*³ at its annual meeting in November 2008. These manuals address important developments that have occurred in the international economy since 1993 and also take into account improved recording and methodological treatments contained in other manuals prepared by STA, including *External Debt Statistics: Guide for Compilers and Users* (2003),⁴ *Monetary and Financial Statistics Manual* (2000), and *Government Finance Statistics Manual* (2001).⁵ In addition, the draft *Public Sector Debt Statistics Guide*⁶ revealed additional changes required to bring the *GFSM 2001* in line with all these developments. It is therefore timely for STA to update the *GFSM 2001* to reflect the revisions made in *2008 SNA* and other guidelines.

2. **This issues paper provides advance notice of the impact that the latest statistical changes may have on Government Finance Statistics compilers and will inform users of the data.** While the *GFSM 2001* framework remains largely consistent with the new standards, the *GFSM 2001* requires a number of methodological changes, while other changes imply either modifications in concepts/classification, and/or clarifications to the methodological treatment.

3. Table I outlines a work plan and Section II describes a strategy to attain international cooperation in completing the project. In Section III the main changes in *GFSM 2001* are identified and grouped under the following categories: (a) major methodological changes, (b) corrections or omissions in *GFSM 2001*, (c) presentational issues and clarifications. This draft presents example of each of these categories of changes and comprises a short

² *2008 SNA* was posted in September 2009 on the UN external website at <http://unstats.un.org/unsd/nationalaccount/sna2008.asp>.

³ *BPM6* was posted in December 2008 on the IMF external website at <http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm>.

⁴ *External Debt Statistics: Guide for Compilers and Users (External Debt Guide)* is posted on the IMF website at <http://www.imf.org/external/pubs/ft/eds/Eng/Guide/index.htm>.

⁵ The *Handbook on Securities Statistics* (BIS, ECB, and the IMF) may also provide further clarifications and methodological treatments. Part I of the Handbook is posted on the external IMF website at <http://www.imf.org/external/np/sta/wgsd/index.htm>.

⁶ Draft chapters of the *Public Sector Debt Statistics Guide* are available on the IMF external website at <http://tffs.org/PSDStoc.htm>.

description of the background to the change and a recommendation on the proposed treatment/modification in *GFSM 2001*.⁷

4. A Work Plan for the update and suggested timeline are presented below in Table 1.

Table 1. Proposed timeline for update of *GFSM 2001*

| Phase | Action | Due dates |
|-----------------------------|---|---------------------|
| Advisory Committee meeting | Advisory Committee meeting to discuss issues and comments | February 2011 |
| Post draft | Post draft revised <i>GFSM</i> and invite comments world wide | Second half of 2011 |
| Approve revised <i>GFSM</i> | Advisory Committee to approve revised <i>GFSM</i> | Early-mid 2012 |

II. OUTLINE OF STRATEGY TO ATTAIN INTERNATIONAL COOPERATION IN COMPLETING THE UPDATE OF *GFSM 2001*

5. A GFS Advisory Committee (GFSAC) has been set up. Statistical experts, with sufficient methodological knowledge, have been identified and invited to participate in an expert group on the revision of the *GFSM 2001*. The composition of the GFSAC took into account criteria such as regional representation and international organizational representation.

6. In addition, a GFS Discussion Forum (<http://forums.imf.org/gfsm/forum.php?styleid=3>) was set up to facilitate participation by the wider community of GFS experts, compilers, and users, and a “*terms of reference*” for the group determined. Interested parties will be invited to actively participate in the update process via electronic communication.

7. Worldwide comments will be invited at various stages of drafting the updated *GFSM* and will be considered on the ground of consistency with other statistical guidance and relevance to the update. It is not envisaged that the process should allow for reopening debates that were decided in the process leading to the *2008 SNA*, but rather it should bring *GFSM 2001* in line with this manual and make corrections and improvements where needed.

8. In preparation for the GFSAC meeting, a proposed list of topics has been developed on which papers would be prepared (See Table 2).

⁷ The list of changes is not intended to be exhaustive at this time.

Table 2. Proposed papers for discussion

| | Topics | Comments: |
|-----|---|--|
| 1. | 2008 SNA — consequential changes | Substantial progress with identifying the issues already made |
| 2. | Links to SNA | <i>GFSM 2001</i> , App. 3 to be revised. Review for consistency with <i>SNA</i> , <i>BPM6</i> , and <i>MFSM</i> |
| 3. | Links to public sector accounting | New appendix to be drafted- draws on work with International Public Sector Accounting Standards Board (IPSASB) |
| 4. | Public Sector | Incorporated in <i>2008 SNA</i> and companion material |
| 5. | Consistency with European System of Accounts, Manual on Government Debt and Deficit | Update of GFSM Companion material |
| 6. | Presentational issues | Including emphasis on debt, restoring prominence of expenditure, definitions, and standardization of tables |
| 7. | Links to fiscal terminology | Table to compare definitions used in fiscal policy analysis. |
| 8. | Issues identified from <i>GFSM 2001</i> (Assorted clarifications and rewording, lessons from frequently asked questions and additional guidance from practical application) | Substantial progress made based on collected annotations to <i>GFSM 2001</i> — experts and compilers will be invited to identify more issues |
| 9. | Uses of GFS | Similar to <i>BPM6</i> Chapter 14; to be drafted by IMF, Fiscal Affairs Department |
| 10. | Consolidation | Incorporating issues from existing companion material; address consolidation of public sector; numerical example in box |
| 11. | Annex on social security | Revision of annex and incorporating supplementary material available |
| 12. | Policy lending | Consider restoring the prominence of policy lending in the framework rather than supplementary information |
| 13. | Cyclically adjusted balance, fiscal rules | Possibly a box to inform GFS compilers; adopt a standard methodology, and application in fiscal rules |

| | | |
|-----|---|---|
| 14. | Useful materials from <i>GFSM 1986</i> | Useful content in <i>GFSM 1986</i> that was omitted from <i>GFSM 2001</i> (reintroduce some cash guidance and useful explanatory material) |
| 15. | World Bank and other user requests for greater details, useful in policy analysis | Additional details in Classification of Functions of Government (COFOG) |
| 16. | Issues for developing countries | Draws on experience and preparation of Department for International Development (DFID) <i>GFS Compilation Guide for Developing Countries</i> |
| 17. | Dissemination issues | Including quarterly general government data dissemination |
| 18. | Contingent liabilities | Additional reporting requirements to allow assessment of fiscal vulnerabilities |
| 19. | New developments: | Issues on <i>SNA</i> and Eurostat Research Agenda - Emissions permits, reinvested earnings, and possibly other issues that has developed since the release of <i>2008 SNA (IAS treatment of leases, etc.)</i> |
| 20. | Coverage terminology (Presentation of institutional coverage (G1, G2, etc.)) | |

III. MAIN ISSUES FOR THE UPDATE OF THE GOVERNMENT FINANCE STATISTICS MANUAL

9. The main issues for the update of *GFSM 2001* can broadly be presented in three groups. Section A describes methodological changes in the *2008 SNA*, which require consequential changes in the GFS. Section B summarizes corrections or omissions in *GFSM 2001* while section C describes presentational changes and clarifications proposed. GFSAC, GFS compilers, users, and others are invited to suggest additional issues that should be covered under each of the sections.

A. Methodological Changes in *2008 SNA*

10. **Arrears—Shown in the original instrument.** The *2008 SNA* (paragraph 3.56) states that when arrears occur, no transactions should be imputed and the arrears should continue to be shown in the same instrument until the liability is extinguished rather than recording arrears as a repayment of the original liability and the creation of a new short-term debt liability. Arrears remain with the original instrument, unless the terms and conditions change when an instrument goes into arrears. Arrears are defined as amounts that are both unpaid and past due date for payment.

Proposed action: The *GFSM 2001* will be amended reflecting that arrears are to be included under the specific financial liability class affected rather than its present recommendation that arrears be separately identified (*GFSM 2001*, paragraphs 3.49-3.50, 7.144, 9.19 and 8.27).

11. **Special Drawing Right (SDR) allocation—A new debt liability.** The *2008 SNA* (paragraph 11.49) indicates that SDR are assets with matching liabilities. The assets represent claims on the participants to the scheme collectively and not on the IMF. SDR holdings by IMF members are recorded as an asset, while the allocation of SDRs is recorded as the incurrence of a debt liability of the member receiving them (as there is a requirement to repay the allocation in certain circumstances and also interest accrues).

Proposed actions: *GFSM 2001* will revise the position that an SDR allocation does not have a corresponding liability and would need to provide for the SDR allocation as a new debt instrument (*GFSM 2001*, paragraphs 10.47, 7.59-5.96, 7.95, 9.24, 9.26, Appendix IV) and all tables related to liabilities. It will be recommended that the SDR allocations be attributed to the central bank, central government, or other general government agency responsible for monetary functions, according to country specific arrangements.

12. **Insurance, pension, and standardized guarantee schemes.** The *2008 SNA* (paragraphs 11.103-11.110), introduced “insurance, pension, and standardized guarantee schemes” as a debt instrument category as part of the debt instrument “other investment fund shares or units.” These reserves, entitlements, and provisions represent liabilities of the insurer, pension fund, or issuer of standardized guarantees, and a corresponding financial asset of the policyholders or beneficiaries.

This new instrument can potentially be classified by maturity; however, if data are not available, a convention that it has a long-term maturity can be adopted. This instrument category would largely be related to positions between residents (except for reinsurance) in the corporate sector.

Proposed actions: Governments are often in control of public pension funds, and standardized guarantee schemes such as export credit guarantee schemes. This debt instrument category will replace the current category insurance technical reserves (*GFSM 2001*, paragraphs 7.120-7.129, 9.40-9.43 and Appendix IV).

13. **Research and Development.** According to *2008 SNA* (paragraphs 10.103-10.105) intellectual property products include the results of research and development (R&D), which consists of the value of expenditures on creative work undertaken on a systematic basis in order to increase the stock of knowledge used to devise new applications. R&D should be recognized as part of capital formation unless it does not provide an economic benefit to its owner. While the SNA generally recommends that the output of research and development should be valued at market prices if purchased (outsourced) or at the sum of total production costs plus an appropriate mark-up representing the costs of fixed assets used in production if undertaken on own account, R&D undertaken by government units, universities, non-profit

research institutes, etc. is nonmarket production and should be valued on the basis of the total costs incurred excluding a return to capital used (2008 SNA, paragraphs A3.22-23).

Proposed action: The *GFSM 2001* will be amended to reflect that costs incurred for R&D create an asset. *GFSM 2001* should also introduce an asset category ‘Research and Development’ as part of ‘Intellectual property products’ under fixed assets (*GFSM 2001*, paragraphs 6.24, 7.51, 8.39 and Appendix IV). Also see Section C on presentation of nonfinancial assets.

14. **Special Purpose Entities — borrowing for fiscal purposes.** Discussions on special purpose entities (SPE) concluded that the usual statistical rules should be applied to decide whether a SPE is an institutional unit and its sectorization. However, a special case emerged for government controlled SPEs created abroad. In the 2008 SNA (paragraphs 4.55–4.58 and 22.51–22.54) special rules are introduced for avoiding a misleading picture of government expenditures/external debt when an SPE or other entity owned or controlled by the general government is resident in another territory and borrows for fiscal purposes. Fiscal purposes can be distinguished because, unlike commercial purposes, they are always oriented to serving the objectives of the government’s home territory. For example, a government may use an SPE or other entity to issue securities to fund its expenses abroad.

While all transactions between government and the SPE would be recorded in the usual way, an additional imputation is required for cases where a nonresident SPE borrows on behalf of government and no flows occurred between government and the entity. At the time of borrowing by the SPE, a government’s external debt liability to the SPE is imputed equal to the amount of the SPE borrowing, with the contra-entry of the government’s equity in the SPE. The government’s equity (government asset) is reduced if the funds are passed to the government or they are passed to a third party. These entries are made symmetrically for both the government and the borrowing entity. The imputations do not affect the transactions or positions between the borrowing entity and its creditors, which are recorded as they occur with no imputations.

Proposed action: The *GFSM 2001* will address the treatment of borrowing for fiscal purposes by non-resident SPEs, reflecting that at the time of borrowing by the SPE, a government’s external debt liability to the SPE is imputed, which is only extinguished when the SPE repays its debt. *GFSM 2001* should clarify the position of those SPEs in the chapters on Coverage, Transactions in Financial assets and Liabilities, and the Balance Sheet. A reference to borrowing for fiscal purposes should also be made in the *GFSM 2001* Appendix II.

15. **Military expenditures.** The 2008 SNA (paragraphs 10.87, 10.144, and A3.55-58) recommends that military weapons systems should be classified as fixed assets and that the classification of military weapons systems as fixed assets be based on the same criteria as for other fixed assets. These are now considered as produced assets that are themselves used repeatedly, or continuously, in processes of production for more than one year. This change resulted from the argument that military weapons systems comprising vehicles and other equipment such as warships, submarines, military aircraft, tanks, missile-carriers, etc. are

used continuously in the production of defense services, while their peacetime use is simply to provide deterrence.

Proposed action: The *GFSM 2001* will be amended to reflect that the asset boundary for weapon systems should be based on the same criteria as for other fixed assets, namely if used repeatedly or continuously in the processes of production for more than one year it should be considered a fixed asset. (*GFSM 2001*, paragraphs 5.9, 5.107, 6.26, 7.36, 7.152, and 8.31)

16. **Land Improvements.** The *2008 SNA* (paragraphs 10.79-10.81 and A3.78) recommends that land improvements continue to be treated as gross fixed capital formation. However, the *2008 SNA* recommends treating land improvements as a category of fixed assets distinct from the non-produced land asset as it existed before improvement. In cases where it is not possible to separate the value of the land before improvement and the value of those improvements, the land should be allocated to the category that represents the greater part of the value. The costs of ownership transfer on all land should be allocated to the land improvements category in the balance sheet.

Proposed Action: The *GFSM 2001* would need to be amended to introduce the asset category 'Land improvements' in fixed assets (*GFSM 2001* paragraphs 7.71, 8.3, and 8.47-8.48). Additional guidance should be provided on the valuation of transactions in land so as to indicate that costs of ownership transfer on land be allocated to the land improvements category (*GFSM 2001*, paragraph 8.6).

17. **Tax credits.** The *2008 SNA* (paragraphs 22.95-22.98) recommends that payable tax credits should be recorded on a gross basis. *GFSM 2001* recommends a net presentation of taxes with an expense recognized only in cases where repayments exceed the tax receipts.

Proposed action: The *GFSM* could be changed or retain its position but should indicate that a reconcilable difference exists between the presentations in the *GFSM 2001* and *2008 SNA* (*GFSM 2001*, paragraphs 5.23, 5.34, and 6.87).

18. **Tax attribution rule.** The *2008 SNA* (paragraphs 3.73–3.71) adopted the principle that tax attribution will mainly be decided by the level of government that has the authority to impose the tax and has the discretion to set and vary the rate of the tax. An additional criteria of the *1993 SNA*, namely final discretion over the use of the funds, that was often misinterpreted as discretion over final spending, was deleted to clarify the attribution rules.

Proposed action: The *GFSM 2001* will be amended to also eliminate final discretion over the use of the funds as a criterion for tax attribution (*GFSM 2001*, paragraph 5.25).

19. **Index-linked securities.** The *SNA 2008* (paragraphs 11.70 and 17.277-17.282) defines index-linked securities as instruments for which either the coupon payment (interest), or the principal, or both, are linked to an index such as a price index, or the price of a commodity. The *SNA 2008* recommends that when the coupon payments are index-linked they are treated entirely as interest, as is the case with any variable interest rate financial

asset. When the value of the principal is indexed to an indicator that moves in line with a broad-based measure of inflation, the issue price of the security is recorded as the principal and the index payments paid periodically and at maturity is treated as interest. When a security is indexed to a narrow index, such as a commodity and thus may be subject to large price fluctuation, the market rate of accrual of the instrument is set at issuance while the difference with the indexed value is treated as a holding gain or loss. For foreign currency linked instruments, all changes in the value should be regarded as holding gains or losses.

Proposed action: The *GFSM 2001* will be amended to reflect the distinction between the various types of index-linked securities and how these impact on recording the interest for the respective instruments (*GFSM 2001*, paragraph 6.47).

20. **Recording of dividends.** According to *2008 SNA* (paragraph 7.130), dividends are recorded at the time when the shares go ex dividend, rather than when the dividends are declared payable. The ex-dividend date is the date the dividends are excluded from the market price of shares. The recording of dividends, at the time dividends are declared, are deemed inappropriate because it gives rise to a double count of the liability for the payment of these dividends – recognition of the dividend at declaration gives rise to an account payable, while the market value of the share should already have the expected dividend imbedded in the price of the shares.

Proposed action: *GFSM 2001* indicates that dividends are recorded either on the date they are declared payable or, if no prior declaration occurred, on the date the payment is made (*GFSM 2001*, paragraph 5.85). The *GFSM 2001* will adopt the same guidance on the time of recording of dividends as in the *2008 SNA* and *BPM6*. The manual would need to be amended reflecting the creation of a debt liability from the ex-dividend date rather than from the date dividends are declared payable.

21. **Introduction of FISIM.** In line with *2008 SNA*, (paragraph 6.163), the concept of financial intermediation services indirectly measured (FISIM) was also introduced in *BPM6*. Actual interest can be seen as including both an income element and a charge for a service. FISIM is the financial service compensated for by the margin between the reference rate and the interest rate payable on loans and deposits involving financial corporations, even when lending their own funds. Therefore, actual interest payable by borrowers is partitioned between a pure interest charge at the reference rate and the implicit service charge made by financial intermediaries. By convention, FISIM applies only to loans and deposits provided by, or deposited with, financial corporations. Accrued interest not yet paid also includes FISIM accrued and not yet paid.

Proposed action: Consideration should be given to whether GFS should also adopt the concept of FISIM in the interest of attaining consistency with the other macro economic datasets. *GFSM 2001* indicates that interest expense payable to financial intermediaries differs from the amount recorded in the SNA due to FISIM because it can only be estimated indirectly by compilers of the national accounts with access to data for all depositors and

borrowers of financial intermediaries, required for the calculation. *GFSM 2001* therefore makes no adjustment for FISIM (*GFSM 2001*, paragraph 6.51).

22. **Non-market output of the central bank.** The *2008 SNA* (paragraphs 6.151-6.156 and 8.126) proposed that for the central bank output related to non-market services be identified separately and be recorded as a purchase of a service by general government with a corresponding current transfer from the central bank to the general government. Such a treatment was necessitated by the need to measure the non-market service as final consumption of the general government sector.

Proposed action: Consideration should be given to whether the GFS should also adopt the treatment of non-market output of the central bank. Routing this transaction through government accounts will increase the levels of revenue (other miscellaneous transfers) and expense (use of goods and services) without impacting the balancing items (*GFSM 2001*, paragraphs 5.106 and 6.19-6.32).

23. **Interest rates charged by the central bank.** The *2008 SNA* (paragraphs 7.122-17.126) recognized that when the interest rate set by the central bank is so high or so low as to imply the inclusion of an implicit subsidy or tax, these should be explicitly recorded as such if they are significant. These taxes or subsidies should be shown as receivable by and payable by government but with a matching transfer from the government to the central bank in the case of a tax and a transfer from the central bank to government in the case of a subsidy.

Proposed action: Consideration should be given to whether the GFS should also adopt the recognition of an implied subsidy or tax to recognize the policy element in the case of interest rates set by the central bank at levels significantly higher or lower than the prevailing market rates. *GFSM 2001*, paragraphs 5.53, 6.39-6.55 and 6.56-6.61).

24. ***GFSM 2001* -Appendix 3 – GFSM Relationship with SNA.** Appendix 3 broadly describes the relationship between some main aggregates in *GFSM 2001* and *1993 SNA* through text and Tables.

Proposed action: The *GFSM 2001*, *Appendix 3* will be revised and updated with the *2008 SNA*. In addition, some needed improvements were identified during the compilation of the Statistical relationships as presented in the STA Pamphlet on *The System of Macroeconomic Accounts Statistics – An Overview*. Appendix 3 will be updated to reflect the revised *2008 SNA* framework, classifications and relationships. Consideration should also be given to expanding the Appendix to also briefly refer to the GFS relationships with other macro-economic datasets.

25. **Guarantees.** The *2008 SNA* (paragraphs 17.207-17.214) introduced a three-way treatment of guarantees. One of the categories is standardized guarantees, which are treated similarly to nonlife insurance. General government and public financial corporations are potential issuers of standardized guarantees. *GFSM 2001* did not adopt the *SNA* treatment of

insurance, for a reason that implicitly assumes the public sector entity is the policyholder rather than the insurer (Appendix 3 paragraph 24), so it needs to be reconsidered in the case of standardized guarantees.

Proposed action: The general *SNA* treatment of guarantees should be applied, while there should be consultation about whether the *SNA* treatment should be followed or treated differently in *GFSM* (*GFSM 2001*, paragraphs 3.95-3.97, 7.147-7.148, 9.33).

B. Corrections or Omissions in *GFSM 2001*

26. **Subsidies omitted from Revenue Classification Structure.** *GFSM 2001* does not provide for a ‘subsidy’ category in the revenue classification structure. However, given that compilers are encouraged to extend the coverage of GFS data to the public sector, this revenue category is clearly an omission from the *GFSM 2001*. Even general government units can be the recipient of subsidies in cases where they have a market establishment which receives the same subsidy as other producers in the economy.

Proposed action: The *GFSM 2001* will be amended to include a revenue category for ‘subsidies’ in the classification structure of revenue. To maintain the number of high level categories, a separate class of revenue will be added under the category “other revenue” at the second level of the classification structure. At the detailed level, a distinction should be made between subsidies received by public corporations (financial and nonfinancial separately identified) and market establishments — financial and nonfinancial separately identified (*GFSM 2001*, Chapter 5, section 4 and Appendix 4, Table A).

27. **Share and other equities limited to the Liabilities Classification Structure of public corporations.** *GFSM 2001* limit the use of “shares and equity” category in the classification of liabilities to public corporations. The argument was that general government units do not issue share and equity and cannot be owned by another unit. However, with the rise of entities such as SPEs and public-private partnerships, a need for such a category for general government units was created. In cases where these units are involved in non-market production and deemed to be controlled by government, they should be consolidated in the general government sector. In these cases, the consolidated general government account should reflect the government’s liability towards the private party in respect of this category of instruments.

Proposed action: The *GFSM 2001* will be amended to allow for the recording of “shares and other equity” as a liability of a general government unit (*GFSM 2001*, paragraph 7.117).

28. **Functional classification of expense vs. outlays.** *GFSM 2001* refers inconsistently to expense and outlays in the sections describing the functional classification of expense of government (COFOG). In addition, outlays are inconsistently defined as ‘expense and

acquisition of nonfinancial assets' and 'expense and net acquisitions of nonfinancial assets (*GFSM 2001*, paragraphs 6.89-6.104 and Table 6.3).

Proposed action: The *GFSM 2001* will be amended to indicate that the functional classification can be applied to both expense and net acquisition of nonfinancial assets and outlays would need to be consistently defined (*GFSM 2001* paragraphs 6.89-6.104 and Table 6.3).

29. **Netting of flows in respect to transactions in nonfinancial assets.** *GFSM 2001* incorrectly indicates that the net acquisition of a category of asset could easily be computed as acquisitions less disposals (*GFSM 2001*, paragraph 8.22). This computation omitted the consumption of fixed assets to the calculation.

Proposed action: The *GFSM 2001* will be amended to indicate that the net acquisition of a category of asset should be computed as acquisitions less disposals, less consumption of fixed capital.

30. **Debt payments on behalf of other units.** *GFSM 2001* indicates that debt payments on behalf of other units, which did not establish a claim on the original debtor and are small or a single payment should be regarded as a current grant when the debtor is another general government unit, a subsidy when the debtor is a corporation, and a current miscellaneous expense when the debtor is any other type of unit (*GFSM 2001*, Appendix 2 paragraph 8). However, *2008 SNA* (paragraphs 22.107- 22.119) indicates that debt forgiveness, assumption, and payment on behalf of others will in all cases be treated as a capital transfer.

Proposed action: *GFSM 2001* will be amended to be in line with the principles agreed in *2008 SNA*.

31. **Additional classifications of financial assets and liabilities data.** While *GFSM 2001* proposes that data on financial assets and liabilities be presented according to residency and instruments, liability data are also presented according to sector of the counterpart to the transaction. Work on the draft public sector debt guide has indicated that the need exists for a cross classification between instruments and holders of the respective instruments. In addition, in financial risk analyses, a need for classification of these, according to outstanding currency, also became apparent.

Proposed action: *GFSM 2001* will be amended to include a financial instrument cross classification with holders and a table that presents these according to outstanding currency.

32. **New Appendix – GFS Relationship with Public Sector Accounting.** *GFSM 2001* indicates that the GFS system is described in standard accounting terms that might differ in important ways from the underlying financial accounting system (*GFSM 2001*, Introduction, Footnote 6). It is also indicated that a comparison with financial accounting is not included in the manual, but that compilers are encouraged to reconcile GFS data with accounting information (*GFSM 2001* Chapter 3, Footnote 7).

Proposed action: Consideration should be given to adding an appendix on the relationship between GFSM and Public Sector Accounting Standards. Such an appendix will broadly describe the similarities and differences between accounting and statistical information and will indicate how these systems could be harmonized to provide complementary information.

C. Presentational Issues and Clarifications

33. **Coverage and Sectorization of institutional units.** The *2008 SNA* introduced several changes/clarifications to the presentation and terminology used for the identification and defining certain institutional units and subsectors. While many of those changes will not directly impact on the government or public sectors, for consistency with other macroeconomic statistics, the counterpart information in the *GFSM 2001* should be brought in line with the changes agreed to in the *2008 SNA*.

Some additional clarifications were made in the *2008 SNA* to address boundary issues related to delineating the general government and public sectors. These were largely agreed to the Taskforce on Harmonization of Public Sector Accounts and captured in companion material to the *GFSM 2001* that was published on the website of the IMF (*2008 SNA*, Chapters 4 and 22, and GFS Companion material).

Proposed actions: The *GFSM 2001* (Chapter 2) will be amended to attain consistency with the institutional sector classification and delineation guidance included in *2008 SNA*.

34. **Classification and recognition of nonfinancial assets.** The *2008 SNA* clarified the concept of economic ownership and introduced several changes, improvements and reorganization of categories of nonfinancial assets. Examples are the treatment of land improvements, costs of ownership transfers, mineral exploration, water resources, computer software, etc.

Proposed action: The *GFSM 2001* will be amended to attain consistency in the definition of economic assets and the classification of nonfinancial assets.

35. **Classification and recognition of financial assets and liabilities** The *2008 SNA* introduced some changes to the classification and recognition of financial assets and liabilities, and introduced changes in terminology. Examples are securities repurchase agreements, guarantees, index-linked debt, pension entitlements, etc.

Proposed action: The *GFSM 2001* will be amended to use the same terminology for financial instruments and to attain consistency in the classification of financial assets and liabilities.

36. **Social Protection – Annex to Chapter 2.** *GFSM 2001* provides details on various social protection schemes in the Annex to Chapter 2. However, many compilers find the guidance vague and had problems with applying the principles in practice. During training courses, additional material on the subject was developed over the past two years. These

include contributions from many staff members and GFS experts and were found to be very effective in clarifying the subject.

Proposed action: Drawing on *2008 SNA* and material developed over the past two years, the *GFSM 2001* will be updated to clarify the recording of economic events related to social protection in the *GFSM 2001* framework.

37. **Loans with concessional interest rates.** The *SNA 2008* (paragraph 22.124) indicates that loans with concessional interest rates could be seen as providing a current transfer equal to the difference between the actual interest rate and the market equivalent interest rate. If such transfer were recognized, it would be recorded as current international cooperation and the interest recorded would be adjusted by the same amount. However, the means of incorporating the impact within the *2008 SNA* and the international accounts have not been fully explored, although various alternatives have been advanced. Accordingly, until the appropriate treatment of concessional debt is agreed, information on concessional debt could be provided through supplementary information. In *BPM6*, the supplementary information should show the benefits arising from concessional debt as one-off transfers at the point of loan origination equal to the difference between the nominal value of the debt and its present value using a relevant market discount rate (*BPM6*, paragraph 12.44 and Appendix 2, *Debt Reorganization and Related Transactions*, paragraphs A2.67-A2.69).

Proposed action: The update to *GFSM 2001* will require supplementary information to be disclosed on concessional debt (Appendix 2 and memorandum items).

38. **Value of nonperforming loans.** The *2008 SNA* (paragraph 13.66) introduces a definition of nonperforming loans and requires memorandum items and supplementary information on nonperforming loans. These memorandum items are required as standard for both the government sector and the financial corporation's sector, while they are required from other sectors only if significant. Memorandum items for the effect of impaired loan assets are introduced, showing fair values of loans, the values of nonperforming loans, and loan loss provisions. While nominal value is the primary valuation method for loans and other nonnegotiable assets, it is recognized that this valuation provides an incomplete view of the financial position of the creditor, particularly when instruments are nonperforming. Consequently, additional items are introduced for these instruments to give additional information.

Proposed action: The update to *GFSM 2001* will provide for supplementary information to be disclosed on non-performing loans.

39. **Contracts, leases, and licenses.** The *2008 SNA* (paragraphs 17.296-17.383) provides clarification on the statistical treatment of contracts, leases, and licenses. Governments are often involved in these types of agreements as the issuers or recipients – in some cases public-private partners are involved. *GFSM 2001* lacks guidance on the treatment of these

complex arrangements. Additional guidance contained in the *2008 SNA* provides clarity and rules according to which these types of transactions should be recorded.

Proposed action: The update to *GFSM 2001* will incorporate guidance on the treatment of contracts, leases, and licences. The material will be incorporated in chapters on revenue, expense, and transactions and stocks of nonfinancial assets and financial instrument, where appropriate.