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Item 1 of the provisional agenda

**IMPLEMENTATION OF THE 1993 SNA IN CANADA**

Submitted by Statistics Canada<sup>1</sup>

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### **Implementation of the 1993 SNA in Canada**

In the summer of 1995, we decided to implement the international System of National Accounts 1993 (1993 SNA) in the Canadian System of National Accounts (CSNA). The CSNA has many components and all of them cover a very long period.

#### **Components of the CSNA**

- (a) The annual National Income and Expenditure Accounts start with the reference year 1926.
- (b) The quarterly Income and Expenditure Accounts start with the first quarter in 1949. Both the annual and quarterly Income and Expenditure Accounts series are available at current and constant prices.
- (c) The Financial Flows and Balance Sheet Accounts start with the reference year 1961. Financial flows are both quarterly and annual whereas the balance sheet accounts are only at annual frequency.
- (d) Annual Input-Output tables (Make and Use) start with the reference year 1961; these tables are produced at both current and constant prices.
- (e) Monthly GDP by Industry (at more than 200 industrial detail level) series, only at constant prices, start with January 1961. The industrial detail in the monthly program is the same as in the Input-Output Tables.
- (f) Canada's Balance of International Payments are produced both at quarterly and annual frequency; the annual program goes back to 1926 and the quarterly program to the first quarter of 1949.
- (g) Government Financial Statistics program, broadly following the IMF's GFS Manual, covers the period from 1961.

**The first issue that we discussed and agreed was that we would implement the 1993 SNA in all the above components of the CSNA as without this the system of accounts would remain unintegrated, hence not acceptable.**

**The second issue that we discussed and agreed was that as much as possible, we would cover the entire period of the existing series of all the above components of the CSNA.**

**We also agreed that we would publish the results of such an implementation, called the CSNA Historical Revisions, in November 1997.**

To recapitulate, the 1997 Historical Revision of the Canadian System of National Accounts has three goals:

- (i) Implement the international System of National Accounts 1993 (1993 SNA) and at the same time to rebase the constant price series of the Canadian System of National Accounts (CSNA) from the present base of 1986 to the new one of 1992.
- (ii) Implement the revised IMF's Balance of Payments Manual, 5th edition, 1993 (BPM-5).
- (iii) Harmonize the Public Sector Statistics currently presented in two systems: the Financial Management System (FMS) and the Canadian System

of National Accounts (CSNA), and reconcile both with the Public accounts of the Federal, Provincial and Local governments.

**The simultaneous accomplishment of these three goals has been a tall order. It has required the development of a process involving the senior staff and professionals from all CSNA divisions to jointly develop and implement a detailed task-oriented plan.**

The senior management of the CSNA established 10 working committees from all the concerned areas, each to deliberate on one of the 10 major projects (called chapters in this report) and to reach decisions to be ratified by the Steering Committee consisting of the Director General of SNA, as chairman, and all the senior managers of the SNA Branch. This involved about 50 professionals, mostly from the SNA Branch, working over one year. We have made some 150 decisions, a number much higher than was expected at the beginning of the exercise last year.

**The involvement of so many professionals may appear cumbersome but this mode was deliberately chosen so that the decisions would be "owned" by the very persons who will implement them.**

A very important feature of the exercise is the harmonization and reconciliation of the data series developed according to SNA conventions and those of the Financial Management System (FMS is the Canadian version of the IMF's GFS manual) for government sector statistics. In 1995, the Auditor General of Canada expressed concern regarding the difficulties faced by the users in understanding the different definitions and conventions in the public accounts, the SNA and the FMS on such subjects as deficit or public debt of the federal government. Some 70 decisions, in the two chapters on the Public Sector Universe and the FMS/SNA harmonization, when implemented, will harmonize or reconcile the statistical series in the three accounting systems. Changes developed in these two chapters should, we hope, prove useful to those at the IMF responsible for the preparation of the revised Government Financial Statistics manual to more closely align with the 1993 SNA.

We completed this project of detailing a comprehensive plan relating to the historical revision of the Canadian System of National Accounts and the implementation of the international System of National Accounts 1993 in August 1996. This is documented in the Detailed Record of Issues, Discussion Notes and Decisions released by the System of National Accounts Branch of Statistics Canada. This document is available in electronic, printed or diskette form.

Several delegates at the Joint UNECE/OECD/Eurostat Meeting on National Accounts (Geneva, 30 April-3 May 1996) asked me to send them our Record of Decisions on the SNA implementation. This type of exercise is a kind of international division of labour, as other countries will face similar issues. They may therefore accept our decisions or change them in the context of their own institutional structure. Copies of this document were sent to all the member countries of the OECD/ECE and several others in August/September 1996.

This report is the first and probably the most important one which documents all the jointly-agreed decisions to be implemented for the 1997 historical revision of the Canadian System of National Accounts. As we implement these decisions, some changes in methodology, valuation, and presentation will be required. These will be documented and made available to the larger public. Thus this report must be considered as work-in-progress.

As noted, we established 10 working committees each to deliberate on one of the following ten projects (called chapters) in this report:

1. Public sector Universe
2. Harmonization of the Public sector Financial Management System and the Canadian System of National Accounts
3. Labour Income
4. Capital Formation
5. International Trade
6. Personal Expenditures
7. Financial Services and Insurance
8. Input-Output Classifications and Valuation
9. Deflation
10. Financial Flows and Balance Sheets

Each of the projects team was asked to develop a list of issues to be deliberated upon by its members. Issues were developed based on known changes required (due to the 1993 SNA, BPM -5, IMF's forthcoming GFS Manual or statistical breaks) from the present practices in the CSNA series. Each issue was clearly noted; its present treatment was clearly delineated; discussion notes were recorded justifying reasons for change or for no change and finally a decision was made. This decision was then presented to the steering committee for ratification. The Steering committee would typically ratify the decision but in certain cases it did not. The reasons for not accepting the decisions of the working committee would include: the issue of integration of the entire system, resource constraints or the unimportance of the suggested change vis-à-vis its cost etc. Such reasons were also noted in the final decisions of this report.

This made our Decisions Record very transparent to us and to our staffs and equally importantly to our users. As noted above, some of so called final decisions could change as we statistically implement such decisions. That is why we call the present set as a work- in- progress.

**All the 150 Issues which required detailed discussion notes and decisions, listed by chapters:**

#### **Chapter 1 - Public Sector Universe**

- 1.1 Structure of the Government Sector
- 1.2 Institutional Units
- 1.3 Universities
- 1.4 Colleges
- 1.5 School Boards
- 1.6 Newfoundland School Boards

- 1.7 Hospitals
- 1.8 Other Health and Social Service Entities
- 1.9 Residential Care Facilities (RCF)
- 1.10 Deposit Insurance Corporations and Agencies
- 1.11 Housing Authorities
- 1.12 First Nations and Inuit Administration
- 1.13 Universe Changes

**Chapter 2 - Harmonization of the Public Sector Financial Management System  
and the Canadian System of National Accounts**

- 2.1 Harmonization of the Financial Management System (FMS) and the Canadian System of National Accounts (CSNA)
- 2.2 Consolidation
- 2.3 Grossing of Income Tax Credits
- 2.4 Sale And Purchase Of Used Fixed Capital Assets
- 2.5 Sale And Purchase Of Land
- 2.6 Profits of Government-Owned Liquor Boards and Lotteries
- 2.7 Treatment of "Licences" in the CSNA and "Privileges, Licences and Permits" in the FMS
- 2.8 Fines, Penalties and Interest on Overdue Accounts
- 2.9 Subsidies and Capital Assistance
- 2.10 Subsidies and Write-off of Losses
- 2.11 Forgiveness and Write-off of Loans
- 2.12 Transfers from Provincial to Federal Government
- 2.13 Revenues Credited to the Vote
- 2.14 Development Assistance
- 2.15 Royalties
- 2.16 Supplementary Labour Income (SLI)
- 2.17 Gain and Loss on Foreign Exchange
- 2.18 Gain and Loss on Sale of Investments
- 2.19 Substitution of GBE Data
- 2.20 Inconsistency in Calendar to Fiscal Adjustments
- 2.21 Supplementary Period Adjustments - Federal Government
- 2.22 Seigniorage
- 2.23 Federal Consolidated Special Purpose Accounts
- 2.24 Adjustment to Income Taxes for Life Insurance
- 2.25 Quebec Youth Allowance
- 2.26 Defense Adjustment
- 2.27 Unemployment Insurance (UI) Fund Adjustments
- 2.28 GST Low Income Refundable Tax Credits
- 2.29 Canadian Dairy Commission
- 2.30 Doubtful Taxes in Quebec
- 2.31 Consumption Taxes
- 2.32 Transfers to Hospitals
- 2.33 Local Government Transfers to Provincial Governments
- 2.34 Alberta Royalty Tax Credit
- 2.35 Refundable Credit for Losses on Mining Operation in Quebec
- 2.36 Treatment of Rent Supplements paid by Provincial Housing Authorities to landlords
- 2.37 Lot Levies
- 2.38 Local Capital Transfers
- 2.39 Miscellaneous Revenue - Local Government

- 2.40 Inter-government Sales of Goods and Services
- 2.41 Pension Adjustments, BC
- 2.42 Property Tax Credits, BC and Alberta
- 2.43 Education Sales to Other Levels of Government, Quebec
- 2.44 Allowance for Valuation of Government Domestic Loans
- 2.45 Allowances for Foreign Loans
- 2.46 Government Employee Pension Plans: Federal and Provincial
- 2.47 Unamortized Discount on Treasury Bills
- 2.48 Notes Payable to the IMF, Outstanding Cheques, and Bank Overdrafts
- 2.49 Different Classifications of Certain Assets & Liabilities
- 2.50 Local Government Balance Sheet - Different Definitions
- 2.51 Consolidation of Foreign Subsidiaries
- 2.52 Net Income or Loss of Non-Consolidated Subsidiaries
- 2.53 Stock Issued by GBE
- 2.54 Unremitted Profits of GBES
- 2.55 Government Claims on GBES
- 2.56 Unearned Insurance Premiums and Guarantee Fees
- 2.57 Provisions for Removal and Site Restoration
- 2.58 Individual Funds of the Caisse de dépôt et de Placement du Québec
- 2.59 Manitoba Telephone Investments for its Pension Obligations

### **Chapter 3 - Labour Income**

- 3.1 Military Pay and Allowances
- 3.2 Retiring Allowances
- 3.3 Employer Payroll Tax, Ontario and Quebec
- 3.4 Workers' Compensation (Medical Aid)
- 3.5 Workers' Compensation (unfunded liabilities)
- 3.6 Pensions (interest on teachers pensions)
- 3.7 Fishing - T4 Control Total Adjustment For Undercoverage
- 3.8 Commissioned Agents (Life Insurance) - T4 Control Total Adjustments for Undercoverage
- 3.9 Private Households - T4 Control Total Adjustments for Undercoverage
- 3.10 Tips - T4 Control Total Adjustment for Undercoverage
- 3.11 Income in kind - Control Total Adjustment for Undercoverage
- 3.12 Employees in Religious Organizations - T4 Control Total Adjustment for Undercoverage
- 3.13 Low Earners - T4 Control Total Adjustment for Undercoverage
- 3.14 Cash vs Accrual Labour Income
- 3.15 Province of Employment/Province of Establishment
- 3.16 Canadian Employees in Foreign Embassies and Consulates
- 3.17 Insurable Earnings of Status Indians

### **Chapter 4 - Capital Formation**

- 4.1 Definition of Capital for CSNA
- 4.2 Housing Transfer Costs
- 4.3 Treatment of National Defence Purchases of Non-Military Equipment
- 4.4 Cultivated Assets
- 4.5 Capital Items Charged to Operating Expenses (CICOE)
- 4.6 Treatment of Expenditures on Mineral Exploration
- 4.7 Treatment of Software Expenditures
- 4.8 Progress Payments/Stage Payments/Prepayment for Machinery and Equipment

- 4.9 Housing Inventory
- 4.10 Artistic and Entertainment Originals
- 4.11 Acquisitions Less Disposals of Valuables
- 4.12 Financial Leasing
- 4.13 Treatment of Expenditures on Residential Infrastructure
- 4.14 Petroleum Incentive Payments (PIP) Program

#### **Chapter 5 - International Trade**

- 5.1 Point of Valuation of Merchandise Trade
- 5.2 Treatment of Progress Payments for Traded Capital Goods
- 5.3 Trade in Goods for Processing
- 5.4 Reconfiguration of the Travel Account
- 5.5 Commercial Service Breakouts
- 5.6 The Treatment of Insurance (including reinsurance)
- 5.7 Treatment of Pre-packaged Software
- 5.8 Commuter and Similar Earnings

#### **Chapter 6 - Personal Expenditures**

- 6.1 Non-Profit Institutions Serving Households (NPISH)
- 6.2 Classification of Individual Consumption by Purpose (COICOP)
- 6.3 Final Consumption Expenditure and Actual Final Consumption
- 6.4 Leasing in the Personal Sector

#### **Chapter 7- Financial Services and Insurance**

- 7.1 Financial Intermediation Services Indirectly Measured (FISIM) - Allocation
- 7.2 FISIM: Reference Rates
- 7.3 FISIM: International Trade
- 7.4 FISIM: Own Funds
- 7.5 FISIM: Credit Unions
- 7.6 FISIM: Consumer Loan Companies
- 7.7 FISIM: Bank of Canada
- 7.8 Output of Insurance Industries

#### **Chapter 8 - Input-Output Classifications and Valuation**

- 8.1 SNA Industry Classification
- 8.2 Presentation of Non-Market Producers
- 8.3 SNA Commodity Classification
- 8.4 Valuation of Gross Output
- 8.5 Valuation of Imports and Exports

#### **Chapter 9 - Deflation**

- 9.1 Chain Indexes
- 9.2 Output of Non-Market Services: Education
- 9.3 Output of Non-Market Services: Government Hospitals
- 9.4 Subsidies
- 9.5 Quality Adjustment of Volume Index
- 9.6 Finance: Imputed Service Charges (FISIM)

9.7 Commission Incomes

**Chapter 10 - Financial Flows and Balance Sheets**

- 10.1 Seasonally adjusted *Financial Flow Accounts*
- 10.2 Valuation issues, National Balance Sheet Accounts
- 10.3 Other changes in asset account (stock-flow reconciliation account)
- 10.4 Subsoil assets
- 10.5 Timber assets
- 10.6 Other renewable assets
- 10.7 Valuables, collections, monuments
- 10.8 Consumer durable goods
- 10.9 Gold as Inventories
- 10.10 Unfunded (non-trusted) pension plans:
- 10.11 Reinvested earnings on foreign direct investment
- 10.12 Derivatives

Additional information on some or all of the above 150 issues may be obtained from Statistics Canada.