

Refinement of the Asset Boundary in Relation to ‘Constructive Liabilities’

Jorrit Zwijnenburg

OECD

Jorrit.Zwijnenburg@oecd.org

The paper proposes a refinement of the asset boundary of the SNA to better specify what is covered under the term ‘constructive liabilities’. As this is currently not well-defined, it leaves room for interpretation on its exact delineation which has become apparent in the discussion on the recognition of pension entitlements. Currently only entitlements derived from employment-related pension schemes are recognized in the central framework, whereas social security pension schemes do not lead to the creation of any entitlements or liabilities. This guidance seems to derive from the asset boundary which explains that a liability is usually established via a legally binding contract. However, as the asset boundary also makes a reference to ‘constructive liabilities’ which are established by “long and well-recognized custom that is not easily refuted”, the question arises how this relates to social security pension entitlements. As the distinction between employment-related and social security pension schemes is not always straightforward, this issue has become more prominent over the last couple of years. More guidance would be needed on the exact interpretation of ‘constructive liabilities’ to better define and delineate the asset boundary, and to assess, among other things, how it would affect the current treatment of various types of pension schemes.

The paper will present the asset boundary as defined in the 2008 SNA and discuss how the current guidance on the recognition of pension entitlements seems to be in contradiction, relating to the part of the asset boundary that refers to constructive liabilities. The paper will explain the need for a clearer definition and delineation of these constructive liabilities, presenting some alternatives with their pros and cons. In that, it will look at the economic rationale for including or excluding specific types of liabilities, also taking into account the treatment in international accounting standards for business and government. In assessing the impact on national accounts, the paper will specifically focus on the issue of pensions and present how different interpretations will affect the accounts of the relevant sectors. It will be shown that this will not be confined to the financial accounts and balance sheets, but will also affect non-financial accounts, also affecting balancing items such as primary income, savings and net lending/net borrowing.