

1993 SNA - Updates

Type of update: INTERPRETATION

Current issues of the implementation of the 1993 SNA: Treatment of Mobile Phone Licences

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The amounts realised by some European governments in recent months from selling licences to use the radio spectrum for the operation of third generation mobile phones have been significant. In some cases, they are equivalent to two percent (or more) of GDP. An important question arises about how such licences should be recorded in the national accounts, a question which the 1993 SNA does not address specifically because the third generation mobile phone technology has been so recently developed. Eurostat was asked to make a decision by the end of June on the appropriate recording of the related transactions and so the ISWGNA held a special meeting on 23 June 2000 to discuss the issue.

Four options were considered for the treatment of the purchase of the licence:

- (i) payment of taxes
- (ii) purchase of services
- (iii) payment of rent
- (iv) the purchase of an asset.

Treatment as taxes was ruled out because the payments for licences are neither compulsory nor unrequited; indeed there is fierce competition to make the payment. The purchase of a service was also ruled out because the payments made are clearly out of all proportion to the costs to government of making the spectrum available to the licensee. By elimination, therefore, the licensee is acquiring access to an asset. The asset could be either rented by the owner or sold to the licensee. The first question was the nature of the asset involved because the radio spectrum is not explicitly included in the 1993 SNA classification of assets. The ISWGNA considered it fits best into the category of tangible non-produced assets, which are described as covering "mainly land and subsoil assets" (paragraph 7.87). In addition, the right to use the spectrum could be treated as a new asset separate from the spectrum itself. This asset, the licence in a narrow sense, is a legal construct and thus would be classified with other legal constructs as an intangible non-produced asset. The choice between options (iii) and (iv) above is thus between the rent of the spectrum (option (iii)) and the creation and purchase/sale of the licence as an asset in its own right (option (iv)). Payments for the licence can consist of (1) an upfront payment, (2) regular payments at specified intervals, or (3) a combination of these two.

The means of payment does not directly affect the classification as rent or purchase of an asset. The ISWGNA considered that the licence should be regarded as the acquisition of an asset if it is issued for a term of more than one year; if the licence is for one year or less, then it does not represent an asset and the payments should be recorded as rent. In the 1993 SNA, intangible non-produced assets are described as consisting of “patented entities, leases or other transferable contracts, purchased goodwill and other intangible non-produced assets” (paragraph 10.130). Mobile phone licences are sometimes made available on the condition that they cannot be resold by the licensee to a third party. Does this mean that allocating the licence to the heading of intangible non-produced assets is invalid because it is not a “transferable contract”?

The 1993 SNA definition of an asset (paragraph 10.2) does not include transferability as a criterion for an entity to be classified as an asset although, as indicated above, the term “transferable” is included in paragraph 10.130 with respect to “..... leases or other transferable contracts”. Members of the ISWGNA who had been involved in writing the 1993 SNA confirmed that the term “transferable” was included in this paragraph as a sufficient, rather than as a necessary, condition to record an asset because it defines a time when a market value can be established for it. Thus, the licence itself is an asset because it provides economic benefits to its owners over a period of time. Even if the licence were strictly non-transferable and had to be relinquished to its original owner if the licensee were taken over by another firm, it could still be classified as an intangible non-produced asset in the hands of the licensee. In any case, the ISWGNA is of the opinion that most licences are transferable indirectly (through the licensee being acquired by a take-over) even if they are not able to be sold directly. The ISWGNA reviewed this decision on 21 September 2000 at its regular bi-annual meeting in the light of papers being presented at the OECD meeting of national accounts experts in the following week. The ISWGNA considered that no new arguments were being advanced and thus the decision taken at the June meeting should remain its collective view. Also it considers there is no need to formally change the 1993 SNA specifically to handle this case though some clarification of the issues may be helpful. An electronic discussion group (EDG) has been set up by the OECD on behalf of the ISWGNA to obtain views on this issue. It can be found under the “EDG” button at <http://www.oecd.org/std/nahome.htm>