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Issue 27

Classification and terminology of assets

**CLASSIFICATION AND TERMINOLOGY  
OF NON-FINANCIAL ASSETS**

by Anne Harrison

## **AEG issue number 27: Classification and terminology of non-financial assets**

**Paper for discussion at the AEG meeting Jan 30 - Feb 8 2006**

### ***Executive summary***

This item is the counterpart to issue number 44 which deals with the classification of financial instruments. The boxes provided show the changes in terminology and in itemisation proposed by the CG as a result of their deliberations.

In addition, there is a suggested rearrangement of the items appearing in the other changes in assets accounts in order to have a more structured order to the entries.

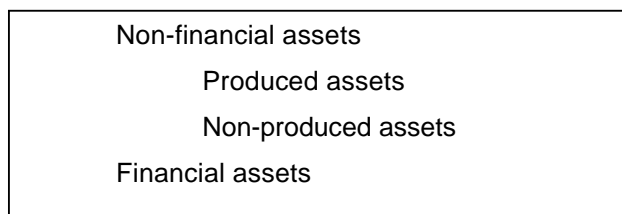
The proposals here will not of themselves result in changes to GDP; it is the substantive issues on a topic by topic basis where that is relevant. There will need to be accounting changes to include the extra detail proposed but no substantive changes in the accounts are involved.

#### **Proposals for the classification of assets**

The first proposal is that the highest level divide in the classification of assets should remain that between financial and non-financial assets.

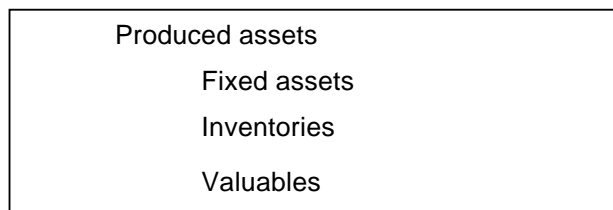
It is also proposed to keep the present first level split within non-financial assets between produced and non-produced assets .

The hierarchy for assets, therefore would begin as now



#### ***QI: Does the AEG agree with this proposal?***

Within produced assets, the breakdown would also be as at present



Within non-produced assets a three way split is proposed

Non-produced assets

**Natural resources**

**Contracts, leases and licences**

**Goodwill and marketing assets**

Several changes are involved here, indicated in bold. The first is to replace "tangible non-produced assets" by the more self-explanatory "natural resources". The second is to split "intangible non-produced assets" into two parts, one which relates only to "Contracts, leases and licences" and one to "Goodwill and marketing assets". It is recognised that there is some connection between goodwill and production but not sufficient to justify including goodwill as a produced asset. It tends to be a rather small item and so, rather than have it at the same level as produced and non-produced assets, it is suggested it keep it within non-produced assets but distinct from other categories.

The coverage of goodwill and marketing assets is also changed. When an enterprise is taken over, the difference between the sum of the assets less the sum of the liabilities was previously recorded as purchased goodwill and goodwill was not recognised in any other context. It is proposed to recognise, first, that this difference may actually include assets such as mastheads, logos, customer lists and so on which are described collectively as "marketing assets". Further it is noted that exceptionally, these may be marketed separately from the whole enterprise and when they are they should be included here. This was agreed in Bangkok.

With these changes, not only the terms tangible non-produced assets and intangible non-produced assets are replaced but the expression "legal constructs" is no longer needed either.

***Q2: Does the AEG agree with this high level structure for produced and non produced non-financial assets?***

Fixed assets

Within fixed assets, a similar order is preserved as at present with investment in goods preceding those in services but the sub-headings tangible and intangible are not part of the hierarchy. Supporting text will itemise those items falling into each category if this is useful for ancillary analysis.

Within buildings and structures, a term is added for land improvements. This replaces the previous term "Major improvements to non-produced non-financial assets". The present term technically includes improvements to other natural resources but there is no anecdotal evidence of it having been used for anything other than land. It is assumed that since "land" includes associated water, improvements to waterways falling within this context will be included in any case. There may be a case to consider major works on river courses, shoring up banks to make them more navigable etc.

The definition of land improvements will be more restrictive than at present with more construction being allocated to structures than previously. (This was agreed in Bangkok.)

<b>Fixed assets</b>
Dwellings
Other buildings and structures
Non-residential buildings
<b>Other structures</b>
<b>Land improvements</b>
Machinery and equipment
Transport equipment
<b>ICT equipment</b>
Other machinery and equipment
<b>Military assets</b>
Cultivated assets
Livestock for breeding, dairy, draught etc.
Vineyards, orchards and other plantations of trees yielding repeat products
<i>{Costs of ownership transfer on non-produced assets}</i>
<b>Intellectual property products</b>
<b>Research and development expenditure</b>
<b>Mineral exploration and evaluation</b>
<b>Computer software and databases</b>
<b>Computer software</b>
<b>Databases</b>
Entertainment, literary or artistic originals
<b>Other intellectual property products</b>

It is proposed to include ICT equipment as a new item under machinery and equipment

It has been agreed to include all military equipment in capital. At present, military schools and hospitals are included under other structures. The CG were in favour of including offensive weapons and their means of deployment under machinery and equipment but not separately identified. At an earlier AEG meeting, though, it was decided military assets should be separately identified. It should be confirmed this is the position and clarification given as to whether all military assets should be included here (thus moving the schools and hospitals for example) or just the weapons and means of delivery, noting that there may in any case be confidentiality problems in showing these in the accounts.

Cost of ownership transfer on non-produced assets remains as a flow item but not a stock, as before. Compared to the present situation, though, it will be smaller in magnitude since costs of ownership transfer on land improvements will be included with the fixed capital item and not separated off.

The term "intellectual property products" has been chosen to replace "intangible fixed assets". The word "products" is included to make clear it is not third party rights which are intended.

Research and development expenditure is included. As a result patented entities no longer appear as non-produced assets.

The item "mineral exploration" has been modified to "mineral exploration and development" to emphasize that the coverage (and probable data source) is that of the international accounting standards.

Computer software has been modified to include databases; software and databases are two sub-components.

The term "other intellectual property products" replaces "other intangible fixed assets". At the moment there is no specific content envisaged but the CG thought a catch-all heading was desirable. Perhaps architectural drawings or engineering plans for a project on hold might qualify for example.

**Q3: Does the AEG agree with this breakdown of fixed assets?**

#### Inventories

The only change to inventories is the proposal to show government military and strategic stocks separately. In the 1968 SNA, strategic stocks were shown separately. In the 1993 SNA these were included with materials and supplies. The same question arises here as with fixed assets; should these be shown separately or included in the other headings? The breakdown into military stocks and strategic stocks is optional (supplementary items).

<b>Inventories</b>
Materials and supplies
Work in progress
Work in progress on cultivated assets
Other work in progress
Finished goods
<b>Government military and strategic stocks</b>
<b>(Military stocks)</b>
<b>(Strategic stocks)</b>
Goods for resale

**Q4: Does the AEG agree with this breakdown of inventories?**

## Valuables

No change is proposed to the breakdown of valuables. However, if the proposal to introduce financial gold is accepted, there will be less gold included in the first sub-heading.

<p style="text-align: center;"><b>Valuables</b></p> <p>Precious metals and stones</p> <p>Antiques and other art objects</p> <p>Other valuables</p>
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*Q5: Does the AEG agree with this breakdown of valuables?*

## Natural resources

The first change proposed is that the detail on natural resources should match that in the SEEA as far as possible. This would lead to changes as under.

<p style="text-align: center;"><b>Natural resources</b></p> <p>Natural land</p> <ul style="list-style-type: none"><li>Natural land under buildings and structures <b>and associated surface water</b></li><li>Natural land under cultivation <b>and associated surface water</b></li><li>Natural recreational land and associated surface water</li><li>Other natural land and associated surface water</li></ul> <p>Subsoil assets</p> <ul style="list-style-type: none"><li>Coal, oil and mineral gas reserves</li><li>Metallic mineral reserves</li><li>Non-metallic mineral reserves</li></ul> <p>Non-cultivated biological resources</p> <ul style="list-style-type: none"><li><b>Natural forests</b></li><li><b>Other crop and plant resources</b></li><li><b>Wild stocks of fish and aquatic mammals</b><ul style="list-style-type: none"><li><b>In national waters including EEZ</b></li><li><b>Outside EEZ</b></li></ul></li></ul> <p>Water resources</p> <ul style="list-style-type: none"><li><b>Aquifers</b></li><li><b>Other</b></li></ul> <p><b>Other natural resources</b></p> <ul style="list-style-type: none"><li><b>Radio spectra</b></li><li><b>Other</b></li></ul>
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As far as land is concerned, "and associated surface water" has been added to the first two headings. This is not intended as a change in substance but simply a more exact description. In the SEEA, recreational land is shown as "of which" item of the whole, allowing that some land under buildings and some under cultivation may be used for recreational purposes. This means the SEEA heading of "Other natural land" includes all recreational land other than that included in the first two categories. The SNA practice is to allocate assets to headings based on the predominant characteristic so it is proposed to maintain this discrepancy with the SEEA.

The breakdown under non-cultivated biological resources is new to the SNA; there is only the sub-heading in the 1993 SNA. The inclusion of fish in international waters allocated under international quota is recognised as an asset.

The 1993 SNA presumes only water in aquifers can be an asset; with the changing position of growing scarcity of water, this is seen to be too restrictive.

For completeness other natural resources such as the radio spectrum need to be added.

Having compiled this list, the CG felt it was overlong to be part of the list of standard components and so suggest that the standard list comprise only the sub-headings; natural land, subsoil assets, non-cultivated biological resources, water resources and other natural resources. The other items should be listed as supplementary items.

Returning to land, the fact that the SNA will show land improvements separately from natural land will also open a difference with the SEEA. It would be helpful for those countries doing land accounting if the supplementary items for natural land could be applied, also as supplementary items, to land improvements.

*Q6: Does the AEG agree with the changes proposed to the detailed categories of natural resources? Does it agree that only the first level of headings should be standard and the rest supplementary? Should a parallel classification between land improvements and natural land be proposed?*

Contracts, leases and licences

This category would replace most of "intangible non-produced assets" but the exact content depends on the outcome of other discussions.

Under third party property rights, the premium on an operating lease obtainable by the lessee could be included but the AEG may decide to treat this as a financial derivative. Permissions to use natural resources may be here, or at least the premium obtainable by a holder if the price rises above the initial cost.

Entitlement to future goods and services on an exclusive basis includes transferable contracts such as those on footballers. It could include options on aircraft, for example, if these are not treated as purely financial derivatives.

It is agreed that since the two sub-headings are generic, there is no need for another catchall item such as "other contracts, leases and licences" to replace "other intangible non-produced assets".

*Q7: It is supposed that the exact question to the AEG on this part of the classification will be updated in the light of discussion on other subjects.*

**Contracts, leases and licences**

**Third party property rights**

**Marketable operating leases**

**Permissions to use natural resources**

**Entitlement to future goods and services on an exclusive basis**

**Of nominated legal persons**

**Of future production**

**Transactions in the capital account**

In line with the proposals above, the entries in the capital account would change to be as shown below.

**Capital account -changes in assets**

Gross fixed capital formation

Acquisitions less disposals of fixed assets

Acquisition of new fixed assets

Acquisition of existing fixed assets

Disposal of existing fixed assets

Cost of ownership transfer on natural resources

Depreciation

Changes in inventories

Acquisition less disposal of valuables

Acquisition less disposals of non-produced assets

Various possibilities are open to expand this. The practice adopted for fixed assets of distinguishing acquisitions from disposals could be carried over to valuables and non-produced assets, for example.

*Q8: Does the AEG agree with this format of the capital account or wish to suggest more disaggregation?*



## Other changes in the recording of non-financial assets

While not strictly part of the classification of assets, the articulation between the opening and closing balance sheet, which is dependent on the classification of assets, also depends on the other changes in volume of assets account. During the 1993 revision of the SNA, this account was defined strictly in terms of non-transactions but given the rather heterogeneous nature of the flows recorded and the fact that there is little obvious structure in the account, the image persists that this is a catch all account where any flow of doubtful classification can be located. With the aim of both making the account easier to understand and to try to discourage this practice of dumping items in it, the following structure is proposed.

### Suggested itemisation for entries in the other changes in volume of assets account

#### ***Entries applying to a restricted number of assets***

##### *Economic recognition of produced assets (K4)*

Public monuments

Valuables

##### *Increase in the value of natural resources*

Discoveries and upwards reappraisals of sub-soil resources (K3)

Natural growth of uncultivated biological resources (K5)

##### *Decrease in the value of natural resources*

Extractions and downwards reappraisals of sub-soil resources (K61)<sup>1</sup>

Harvesting of uncultivated biological resources

##### *Initiation of contract, leases and licences (K3)*

Relating to third party property rights

Fixed assets

Natural resources

Relating to the entitlement to future goods and services

##### *Termination of contracts, leases and licences (K62)s*

Relating to third party property rights

Fixed assets

Natural resources

Relating to the entitlement to future goods and services

##### *Changes in the value of goodwill and marketing assets(K62)*

#### ***Entries applying to all classes of assets***

##### *Catastrophic losses (K7)*

##### *Uncompensated seizures (K8)*

##### *Other volume change (K9 and K10)*

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<sup>1</sup> The word extraction has been used here to replace depletion. This is in keeping with usage in the SEEA where extraction is used for total removals and depletion for the net effect on the level of reserves.

*Changes in classification (K12)*

From economic to non-economic (leaves the balance sheet)

From non-economic to economic (enters the balance sheet)

From one asset class to another (including K12.21)

From one institutional sector to another

The present headings are:

K2 Acquisition less disposals of non-produced non-financial assets

K3 Economic appearance of non-produced assets

K4 Economic appearance of produced assets

K5 Natural growth of non-cultivated biological resources

K6 Economic disappearance of non-produced assets

K7 Catastrophic losses

K8 Uncompensated seizures

K9 Other volume changes in non-financial assets n.e.c.

K10 Other volume changes in financial assets and liabilities n.e.c.

K11 Nominal holding gains and losses

K12 Changes in reclassifications and structures

***Q9: Does the AEG agree with the cg recommendation to adopt this restructuring of the account?***

**Annex: Complete list of proposed classification; new items or changed terminology in bold; supplementary items shown in brackets { }**

***Produced assets***

Fixed assets  
Inventories  
Valuables

***Fixed assets***

Dwellings  
Other buildings and structures  
Non-residential buildings  
Other structures

**Land improvements**

Machinery and equipment  
Transport equipment  
**ICT equipment - addition**  
Other machinery and equipment

*Costs of ownership transfer on non produced assets- flow but not stock*

**Military assets**

Cultivated assets  
Livestock for breeding, dairy, draught etc.  
Vineyards, orchards and other plantations of trees yielding repeat products

**Intellectual property products**

**Research and development expenditure**

**Mineral exploration and evaluation**

**Computer software and databases**

**Computer software**

**Databases**

Entertainment, literary or artistic originals

**Other intellectual property products**

***Inventories***

Materials and supplies  
Work in progress  
Work in progress on cultivated assets  
Other work in progress

Finished goods

**Government military and strategic stocks**

**{Military stocks}**

**{Strategic stocks}**

Goods for resale

***Valuables***

Precious metals and stones  
Antiques and other art objects  
Other valuables

*Non produced assets*

**Natural resources**  
**Contracts, leases and licences**  
**Goodwill and marketing assets**

*Natural resources*

Natural land  
    {Natural land under buildings and structures **and associated surface water**}  
    {Natural land under cultivation **and associated surface water**}  
    {Natural recreational land and associated surface water}  
    {Other natural land and associated surface water}  
Subsoil assets  
    {Coal, oil and mineral gas reserves}  
    {Metallic mineral reserves}  
    {Non-metallic mineral reserves}  
Non-cultivated biological resources  
    {**Natural forests**}  
    {**Other crop and plant resources**}  
    {**Wild stocks of fish and aquatic mammals** }  
        {**In national waters including EEZ**}  
        {**Outside EEZ**}  
Water resources  
    {**Aquifers**}  
    {**Other**}  
**Other natural resources**  
    {**Radio spectra**}  
    {**Other**}

*Contracts, leases and licences*

**Third party property rights**  
    **Marketable operating leases**  
    **Permissions to use natural resources**  
**Entitlement to future goods and services on an exclusive basis**  
    **Of nominated legal persons**  
    **Of future production**

*Goodwill and marketing assets*