

Inter-Secretariat Working Group on National Accounts
Report of special meeting to consider the treatment of mobile phone licences
Washington, 23 June 2000

Present: OECD - Paul McCarthy (chair), Anne Harrison
IMF - Adriaan Bloem, Paul Cotterell, Neil Patterson, Rob Dippelsman, Nils Maehle
Eurostat - Brian Newson
UNSD - Jan van Tongeren
WB - Barbro Hexeberg

The special meeting was called specifically to discuss the treatment of mobile phone licences, which have become an important issue given the number of countries around the world selling licences that confer rights to use a given radio spectrum.

The meeting had available papers from the Eurostat National Accounts Working Party meeting which discussed this issue on 6 June, a summary of how several countries have decided to treat these licences, plus a position paper from the IMF. In addition, the OECD circulated a list of points for discussion.

The first point discussed was whether the licences should be treated as either taxes or payments for a service. Although some similar payments have been recorded as taxes, all participants agreed that neither this treatment nor payment for a service is appropriate.

The meeting then considered the options of treating the payments for the mobile phone licences as either a rent for the use of an asset or as the purchase of an asset by the corporate sector from general government. The main implication of treating the payments as a rent is that the only asset in question is the radio spectrum; the implication of treating the payments for use of the spectrum as the purchase of an asset is that an additional asset (the licence itself) is created by government and sold to the corporate sector.

The 1993 SNA defines an asset as “an entity over which ownership rights are enforced ... and from which economic benefits may be derived by their owners by holding them, or using them, over a period of time.” (para 10.2) The meeting concluded that the spectrum satisfies this definition of an asset. It is normally owned by government which can derive benefit from it by selling the right to use it. Provided that the licence is available for use for more than one year by the business(es) making the payments, the licence also satisfies this definition of an asset. In reaching this decision, the following issues were discussed:

- Businesses clearly see such a licence as being an asset and the net worth of a business is increased by acquiring a licence.
- Transferability of the licence is not important in determining its treatment because economic benefits may be derived by their owners by holding them regardless of their transferability. In practice, most licences are transferable either directly (by the business selling the licence to another business) or indirectly (through the business being acquired through a takeover). If further restrictions regarding transferability exist, e.g., that a licence is transferred back to the government in case of a business takeover, the licence should still be classified as an asset. (Such a restriction will be mirrored in a lower market value of the licence and so does not disqualify the licence from being treated as an asset.)

- The licence should be classified as an intangible non-produced asset because it is a “construct of society”. The licence is a separate asset from the spectrum itself, which is classified as a tangible non-produced asset owned by government.

Note that the above three bullet points all indicate that the licence is an asset and therefore the payments for it must be for the purchase of the licence itself. Therefore treatment of the payments as rent is ruled out because this would be applicable only if the spectrum is the sole asset involved.

- The spectrum is recognised as an asset at the time its commercial potential is established.
- It is not necessary to assign a value to the spectrum itself although it may be convenient to do so simply as a means of showing this asset in the government accounts. (**Note:** The spectrum also exists as an asset owned by government. However, before the auction there is no value we can reasonably place upon it; at the time of the auction it is worth what the successful bidder paid for it, but the spectrum has at that moment no extra value over and above the licence. As the years go by the licence declines in value which reverts to the government's spectrum asset, such that after the licence expires the spectrum returns to its original value and government can re-offer use of the spectrum for another generation of licences.)
- The licence authorising the use of the spectrum is created by government by virtue of its regulatory powers.
- It may be desirable to specifically identify such licences as a special category within intangible non-produced assets along with other similar assets which arise from governments exercising their regulatory powers (e.g. fishing rights, taxi licences in some countries, emission trading permits).
- Broadly, there are three ways of paying for the licence - a one-off upfront payment, regular payments at specified intervals, or a combination of the two. The meeting concluded that the means of paying for a licence is a financial issue and therefore is not a relevant factor in determining whether or not it is an asset. The accrual based time of recording is when the licence is issued.
- If the licence is issued on a one year term, renewable at the discretion of the licence holder, it is to be regarded as the acquisition of an asset; if the licence is for one year or less, then it does not represent an asset and the payment should be recorded as rent.

The means of writing off the cost of a licence over the course of its life was discussed at some length. In contrast to the recording of consumption of fixed capital for produced assets, in the 1993 SNA, amortisation of intangible non-produced assets is not recorded in the current accounts but in the other changes of volume account. As a licence is amortised, the value of the spectrum to the government actually increases because the right to use it can potentially be sold again. The 1993 SNA recognises such reappearance of economic value and records it in the other changes in the volume of assets account. Not showing the write-off of the value in the current accounts is consistent with the treatment of other intangible non-produced assets, such as copyrights and so no change to the 1993 SNA is necessary if a decision is made to follow this route.

The meeting considered two alternatives to record the annual write-offs in the accounts, namely, (i) in the same way as consumption of fixed capital, and (ii) as other changes in assets. The meeting concluded that neither would be satisfactory for both the owner of the spectrum and the owner of the licence:

- If the write-off is not charged to the current account, the cost of the purchase is not recorded as a cost to the businesses concerned and so their net operating surplus is overstated.
- If the write-off is charged to the current account of the licence holder, then an offsetting amount has to be shown as a current receipt to the spectrum owner. This increases government saving and will affect net lending or borrowing unless some further adjustment item is introduced into the capital account.

Therefore the meeting recommended continuing the 1993 SNA treatment of restricting the write-off to the other changes in assets account. This allows the increase in the value of government assets to be recorded as the expiry date of the licences approaches, consistent with a potential further “sale” of the right to use the spectrum for another period. Further, this procedure ensures a neutral effect on the overall economy for variables such as consumption of fixed capital, saving etc.

In conclusion, the meeting agreed that, although the issues related to these licences are not explicitly covered, the 1993 SNA should be followed for the reasons described above. However, an official interpretation for these and similar types of assets is desirable. Therefore this report of the special meeting should be circulated world-wide for comment as the first step required in the UNSC procedures for such an interpretation.