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Issue 21
Contracts and leases of assets

LEASES AND LICENCES
(part 2)

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AEG Issue number 21: Leases and Licences (part 2)

Partitioning the ownership of assets

Paper considered in e-consultation by members of the Canberra II Group before submission for discussion at the AEG meeting Jan 30 – Feb 8 2006

Background

There are a number of instances when the benefits from an asset are divided between two or more units. One common way is that one unit receives the benefits for a certain period of time and then another unit takes over the benefits. This may be the case when an asset is leased out for a fixed period of time, for instance. Another is where the benefits in every period are shared between two or more units. Up till now the Canberra II Group (CG) has been unable to reach a consensus on how to record transactions in these cases.

The CG has agreed that partitioning of an asset between two or more owners is acceptable but that it should be allowed only in exceptional cases. The SNA currently allow this in the case of assets held by corporations operating in more than one territory (see paras 14.27 and 14.34). One of these cases is that of a regional central bank. It is now proposed by BOPCOM that these institutions should be regarded as international institutions which would remove this exception.

It has been noted that the IASB is considering the question and revised standards may recommend partitioning in certain circumstances at some future date. This possibility should be monitored.

Some devices have been agreed to effectively share the benefits among units. One such device is the recommendation on originals and copies which creates distinct assets for the author and user of the product. Another is the case of sub-contracting an operational lease where again the recommendation is that two distinct assets be recognised, one the asset being leased and the other the advantage to the lessee when he can command a higher price than that stipulated in the contract.

However, there remain a number of instances where no solution has yet been accepted and these are addressed here. They concern:

> A financial lease on a fixed asset which does not cover the whole of the life of the asset and the legal owner resumes all ownership entitlements at the end of the lease;
>
> A lease on natural land which is for a fixed time at the end of which the landlord resumes economic as well as legal ownership;
>
> A lease on a sub-soil deposit where the extractor shares the resource rent from the extractions with the legal owner of the deposit.

In addition, it was recalled rather late in the process, that there was some unfinished business from the discussion on mobile phone licences. The last conclusion of the ISWGNA report issued in December 2001 reads as follows:

> **Conclusion 8: further elaboration will be useful for the future**
>
> The ISWGNA found that there was the need for more broad-based work on the treatment of all intangible assets, in line with the request by the UNSC. For instance, an alternative treatment should be further investigated whereby the spectrum is `sold'

for a finite amount of time. The lessee would thus buy some share of time use of the spectrum rather than creating a new intangible asset (the right to use the spectrum), the spectrum itself would be sold, keeping the economy-wide composition of tangible and intangible assets intact. Another variant is to assume that the spectrum has a finite life itself that corresponds to the length of the licence. A more general way of capturing the cases of infinite licences and this proposal is to say that sale of the spectrum applies when the life-span of the licence and of the spectrum coincide. The ISWGNA confirms that the treatment as a temporary sale of the underlying asset has no differential effects on income, savings and net lending/borrowing from the treatment as sale of an intangible non-produced asset.

Full investigation should be made on the consequence of the introduction of the above set of criteria on the SNA. In addition, work should be conducted to elaborate a broader set of criteria to aid making decisions between the treatment of payments for leases or licences as rent or as sale of an intangible asset. These criteria should be applicable to a broad range of transactions, and not limited to the question of mobile phone licences.

As proposed by the ISWGNA, the Canberra Group on Capital Stock will be reconvened under the leadership of the OECD and the Australian Bureau of Statistics to discuss this issue as a priority item. It is expected that the task force will be able to deliver a first progress report in the autumn of 2002.

Another issue where the benefits of an asset are partitioned between two units over time concerns PPPs. This item is not discussed here because it is the subject of a separate issues paper (issue number 24).

Alternatives available

The option of having two distinct assets to effectively partition ownership of a single asset has been invoked in the case of original and copies and of a premium available on an operating lease, as indicated above. As noted in issue paper 21 part 1, this possibility of using the financial derivative route extends the previous delineation of financial derivatives but it is one possibility of dealing with the questions remaining since the value at which the asset is to be returned to the legal owner is higher than the current value of assets with finite lives.

A second option is to apply the criteria established for mobile phone licences more widely. The following section reviews these criteria and looks at the possibilities for extension.

A third option has been suggested, not previously presented to the CG which is described in the next section. In essence it considered two financial assets, one representing the value of the asset to be used by the lessee and one the value to be returned to the lessor

At the end is a checklist of problems to be resolved and the possible solutions. Members of the CG were asked to complete this and send their answers to Charles.aspden@oecd.org by December 15th.

A preliminary note on financial leases

As noted in issue paper 21, there is a question of interpretation over what the SNA currently prescribes. In para 6.116 (b), it specifies that under an operating lease, "the user does not undertake to rent the equipment for the whole of the expected life of the equipment". The discussion on financial leases in 6.118 does not mention the life of the asset in connection with the period of the lease explicitly; it simply says "the lessee contracts to make payments which enable the lessor, over the period of the contract, to recover all, or virtually all, of his costs including interest". There are those who see this as specifying that any lease for less than the whole of the asset's life MUST be an operating lease. Others do not read the text this way. There is thus a question about whether what is suggested in italics is a change to the SNA or a clarification.

The first question is therefore whether any lease of a produced asset for less than the entire life of the asset should be automatically treated as an operating lease? If no, is this a change or a clarification of the 1993 SNA?

Treatment of mobile phone licences

In its review of the treatment of mobile phone licences (see attachment), the ISWGNA came to eight conclusions:

1. The spectrum is a tangible, non-produced asset
2. The licence is an intangible, non-produced asset in most circumstances
3. Typically, licence payments are neither taxes nor purchases of the spectrum itself
4. Land, subsoil assets and the spectrum are similar types of assets and so are leases and licences based on the use of these assets
5. There is no single, universal and clear-cut criterion to distinguish between rent and asset sale — a range of criteria needs considering
6. Most cases examined point to licence payments as purchase of an asset, not rent
7. The value of licence and the value of the spectrum move symmetrically
8. Further elaboration will be useful for the future

In the eighth conclusion, quoted in full above, the ISWGNA described two avenues of further work. One was to consider alternative treatments of the sale of the right to use the spectrum. One alternative put forward was to treat the transaction as the temporary1 sale of the spectrum. At its meeting in September 2004, the Canberra II Group agreed that the partitioning of an asset was only acceptable in exceptional circumstances. Furthermore, in its consideration of the amortisation of mobile phone licences in September 2005, it decided that the present method should be continued. One of the other options considered and rejected was a financial lease approach which included the temporary acquisition of the spectrum for the period of the licence by the licensee.

The second request from the ISWGNA was that work should be undertaken to broaden the six criteria it identified for determining whether payments for a licence (or lease) to use a non-produced tangible asset should be treated as a rent or the sale of an intangible non-produced asset. The six criteria are reproduced below.

> **Conclusion 6: most cases examined point to licence payments as purchase of an asset, not rent**
>
> The following paragraphs consider several indicators.

[1] When the lifespan of the licence and the spectrum coincide, the ISWGNA recommends that the payment for the licence should be treated as the sale of the spectrum.

-***Costs and benefits assumed by licensee:*** the more of the risks and benefits associated with the right to use an asset are incurred by the licensee, the more likely the qualification of a transaction as the sale of an asset as opposed to rent. Thus, pre-agreement on the value of payments — by lump sum or by instalments — effectively transfers all economic risks and benefits to the licensee and so point to the sale of an asset. If, on the other hand, the value of payment is made contingent on the results from using the licence, risks and benefits are only partially transferred to the licensee and the situation is more readily characterised as payment of rent. In the case of mobile phone licences, the total amount payable has often been pre-agreed. An additional indication for the degree to which commercial risks have been passed to the licensee is to examine the hypothetical case where a licence-taker goes bankrupt. If, in such a case, the licensor reimburses none of the up-front payment made by the licensee, this would constitute a strong case against a characterisation of the transaction as rent, as apparently the licensee has incurred all the commercial risks involved.

-Up-front payment or instalment: as with other indicators, the mode of payment is in itself not conclusive for a characterisation as asset or rent payment. Generally, the means of paying for a licence is a financial issue and as such not a relevant factor in determining whether or not it is an asset. However, business practice shows that up-front payments of rent for long periods (15-25 years in the case of mobile phone licences) are highly unusual and this favours an interpretation as sale of an asset.

-Length of the licence: licences granted for long periods suggest a treatment as the sale of an asset, for shorter periods a treatment as payments for rent. The ISWGNA felt that the time frame involved in mobile phone licensing (15-25 years) was rather unusual as a period for which to conclude a fixed payment of rent and therefore a further indication favouring an interpretation as sale of an asset.

-Actual or de facto transferability: the possibility to sell the licence is a strong indication of ownership and if transferability exists, this is considered a strong condition to characterise the licensing act as the sale of an intangible asset. In practice, mobile phone licences are often transferable either directly (by the business selling the licence to another business) or indirectly (through the business being acquired through a take-over).

-Cancellation *possibility:* the stronger the restrictions on the issuer's capacity to cancel the licence at his/her discretion, the stronger the case for treatment as a sale of an asset. Conversely, when licences can easily be cancelled at the discretion of the issuer, ownership over benefits and risks has not been fully transferred to the licensee and the transaction qualifies more readily as rent.

-Conception in the business world and international accounting standards: businesses, in accordance with international accounting standards, often treat a licence to use the spectrum as an asset. Again, in itself this does not lead to treatment as an asset in the national accounts, and there are other areas where companies choose to present figures in their accounts in ways that are not consistent with the national accounts. But the treatment of the acquisition of mobile phone licences as capital investment in company accounts provides an added incentive to treat them in a similar way in the national accounts.

It is also helpful to recall the indicators suggesting that the licence should not be regarded as an asset but as giving rise to rent.

Although none of the following provisions is in itself sufficient to support classifying payments made by the lessee as rent, a combination of them would indicate such recording:

The contract is of ***short-term duration,*** or renegotiable at short-term intervals. Such contracts do not provide the lessee with a benefit when market prices for the leased asset go up in the way that a fixed, long-term contract would. Such benefits are holding gains that typically accrue to owners of assets.

The contract is ***non-transferable.*** Non-transferability is a strong but not a sufficient criterion for the treatment of licence payments as rent, because, although it precludes the lessee from cashing in on holding gains, it does not preclude the lessee from reaping comparable economic benefits (e.g., using the licence in their business).

The contract contains ***detailed stipulations*** on how the lessee should make use of the asset. Such stipulations are often seen in cases of rent of land, in which the owner wishes to retain a control over the usage of the land. In the case of licences, examples of such stipulations would be that the contract states what regions or types of customers should be served, or that it sets limits on the prices that the lessee may charge.

The contract includes conditions that give the lessor the ***unilateral right to terminate*** the lease without compensation, for instance for under-use of the underlying asset by the lessee.

The contract ***requires payments over the duration of the contract, rather than a large up-front payment.*** Although this condition is essentially financial in character and thus cannot be decisive on the type of the lease, it may indicate a degree of control for the lessor to direct the use of the spectrum. The case for a treatment as rent is further supported if the payments are related to the revenues the lessee derives from the licence.

In its report, the ISWGNA made clear that the criteria should be applicable to a broad range of transactions involving other tangible, non-produced assets, in particular land. It expressed reservations, though, about the extension of the criteria to produced assets2.

The question for the CG is whether the principles laid down for mobile phones could be applied to the three cases under consideration.

Financial lease

Do the conditions of a financial lease satisfy the six conditions for treatment in the same way as a mobile phone licence? If so should a financial lease for less than the whole of the life of an asset be treated not as the transfer of the asset itself but the creation of a licence to use the asset for a fixed period? As presently formulated, the financial lease treatment makes the lessee responsible for all the costs of maintenance and for the consumption of fixed capital of the asset. Although the mobile phone licence conditions say that the licensee acquires all costs and benefits, this is a different set of costs and benefits for a non-produced asset, not subject to deterioration, than for a produced asset.

[2] Paragraph 5 of the Report of the Task Force on National Accounts to the UNSC of 14 January 2002

Lease on land

The set of conditions whereby a mobile phone licence is to be regarded as payment of rent rather than acquisition of an asset, fits the case of land leased on the basis of regular payments well and would not lead to a change in the SNA.

When land is held under a long term lease following a single up front payment, the conditions for treating the mobile phone licence as the acquisition of an asset are more nearly met than in the case of a produced asset. In fact there are different possibilities for what might happen at the end of the long lease. If the leaseholder is offered an extension at minimum or zero cost, then to all intents and purposes, the initial payment was very close to an outright purchase of he land. However, under some jurisdictions leasehold is n by no means automatically renewed and certainly not at nominal prices. In this case the mobile phone licence analogy seems more appropriate than the outright sale.

There is a third possibility to be considered. Suppose a lease-hold tenant improves the land during his long lease. Does the value of the improvement belong to the tenant or landlord? Presumably at the end of the lease the landlord can acquire the improvement at zero cost. Quite how the mobile phone licence case would apply in those circumstances would need investigating.

Licence for extraction

Mineral deposits are non-produced assets and so it would seem should fit relatively easily within the mobile phone licence paradigm. In fact though, some of the conditions to qualify and not to qualify apply equally. As noted in part 1 of this paper, there are both advantages and disadvantages to showing either the extractor or the owner as the sole owner of the resource. A simple solution would be to have the extractor working as if "on contract" to the owner without taking ownership of the deposit. He retains some of the resource rent, enough to cover costs and make some profit and hands the rest over to government. However, this is not how commercial accounting is done where the deposits are recorded in the extractor's accounts and does not provide an ideal interface to environmental accounting either.[3]

Licence for the spectrum

Since the mobile phone licence case was designed with this in mind, clearly it is wholly applicable.

[3] In fact it is misleading to talk of only one extractor in many cases. Unincorporated joint ventures are very common in the oil industry where a number of major oil companies work together and simply share all costs and assets. The variety of arrangement is extensive with very detailed guidance on how risks are to be shared but a simple allocation of all assets to one unit is seldom the case in business accounting.

An alternative treatment of long—term leases[4]

The Canberra II Group has refined the distinction between operating and financial leases. Very short term leases are by nature operational. The problematical cases occur when an asset is used by someone other than the legal owner for a period of years in return for regular payments. To simplify somewhat, the essential distinction between the two sorts of leases depends on who carries the responsibility for care and maintenance of the asset and thereby benefits from the risks and rewards which come from using the asset in production. There is no prior reason why operational and financial leases cannot apply to both produced and non-produced non-financial assets with finite lives.

Under both operating and financial leases, regular payments are due. For the operational lease these payments are recorded as payments for a service; for a financial lease a loan from the lessor to the lessee is created and the annual payments are treated as payments of interest and repayments of principal. The non-financial asset subject to the financial lease is recorded as being sold when the lease is agreed.

There are two important cases where the CG has not reached a conclusion. Both relate to the situation where the legal owner puts the asset at the disposal of a user for a period of time with a clear understanding that, at the end of that period, the legal owner again becomes the beneficiary of the risks and rewards inherent in the asset. In the meantime, the user acquires the risks and rewards from the use of the asset much as under a financial lease.

The first case is when the asset declines in real value during its use in production. This is the case for financial leases where the lease is for less that the useful life of the asset. These leases apply to produced assets where the value of the asset at the end of the life is [much] less than at the start. They also apply to mineral deposits which are non-produced but where the value of the asset at the end of a licence is expected to be less than at the beginning.

The second case is where the asset does not decline in value over the period of the lease because the asset is deemed to have an infinite life. The classic instances are land and radio spectra.

Financial lease of an asset with a declining real value

Consider the financial lease case first. Suppose the asset acquired under a five year lease has a value of 1000 and further suppose that the end of the five years its productive capacity is 100. Further, let us assume the net present value of this 100 when the lease is agreed is 80. Instead of imputing a single loan of 1000 and reducing it to zero over the five years, we could assume two transactions. The first is a loan of 920, which represents the value that will be written off by the lessee as depreciation over the five years of the lease. The second is a loan of 80 which will be repaid by the return to the lessor of the asset at that time. For every year of its use, the asset declines in value (from the original 1000) and the whole of this decline is recorded in the accounts of the lessee, treated as the economic owner, as depreciation (consumption of fixed capital). In addition there is an income element coming from the asset, the return to capital. This represents the unwinding of the discount factor for the whole value of the asset but not all of this is appropriable by the lessee. That part which represents the unwinding of the discount on the final value of the asset must be added to the loan of 80 so that this loan ultimately rises to the value of 100, the value of the asset at the end of the lease[5].

[4] This section has benefited very considerably from extensive comments made by Jacques Magniez. 1 have accepted many but not all his suggestions. However, I am arranging that his comments and the original text he commented on should be available to CG members as well as this note. AH

[5] For simplicity we assume no inflation over the period of the loan.

This part of the return to capital/operating surplus should be shown as property income payable by the lessee to the lessor. In this way it enters the saving of the lessor not the lessee but it is also shown as increased lending by the lessor to the lessee in the financial account. At the end of five years, the lessee will have paid the lessor 920 but will still have both a loan to the lessor of 100 and an asset worth 100. The lessor then accepts the asset in settlement of the outstanding loan.

This device has two immediate advantages. It avoids partitioning the non-financial asset by creating two financial assets, one corresponding to each party's claim to the risks and rewards represented by the non-financial asset leaving the whole of this asset to contribute to the production of the current user. It also copes with the question of how to match the decline in the value of the asset to one party while the value of the other increases by the same amount. Here it is not the non-produced asset alone which changes in value but the addition to net worth represented by the non-financial asset and the two financial assets.

In some senses, invoking two financial loans seems unnecessarily complicated. Jacques Magniez shows in a worked example that exactly the same effect is achieved by assuming a single loan for the whole value of the asset, 1000 in this case, but where the repayment of principal and interest relate only to the value excluding the terminal value, 920 in this case. However, the notion of two loans resolves a somewhat artificial situation where the previous lessee does not want to make continual payments for the use of the asset but agrees to buy the asset for the sum of 920 plus the assignment of the asset at the end of five years when it is expected to be worth 100. The same sort of accounting as before can work in respect of an imputed loan in respect of the residual value of the asset, even though there would be no regular payments in respect of the part which will be exhausted by the "lessee".

Lease on land

This approach would seem to work for leasehold land tenure also, whether the ground rent is paid annually or as a one off payment on acquisition (or exchange) of the land and any structures on it. One of the financial loans would relate to a finite life asset (albeit of up to 99 years, say) which gradually declines in value over the time of the lease. The other is for an infinite life lease but which does not commence until after the end of the current lease. This will increase in value by exactly the same amount as the other declines as the start of this second period approaches. There is a practical problem in that it may not be easy to determine at the outset of a 99 year lease, what the net present value now of what the value f the land would be (even in current prices) in 99 years time but the neutral assumption would be to assume that the value of the land represented a constant rent over infinitely many years and knowing the net present value of the rent up to the end of the 99 year lease and a discount rate, it is possible to construct a net present value for the land at the end of this time.

The other possible problem in the case of land is that traditionally the property income payable on land has been termed rent. Under this proposal, it would be shown as interest. (Since no deterioration in the value of land is shown in the accounts, the return to capital and economic rent are equal and would thus appear as interest on a financial loan.) The change in terminology is cosmetic rather than real since both rent and interest are property income. However, with the decision to have produced land in the form of land improvements, "rent" in the sense of rent on natural land would not be applicable here. However, if a parcel of land comprised some natural land and some land improvements, this scenario would allow the property income on both parts to be shown together as interest without it being necessary to make a separation. (This would also be so for land and the building on it let under a financial lease.)

This seems very complex. In the case of a lease where annual payments are due, the option of a resource lease, as explained in issue paper 21 is simpler; the asset remains on the books of the landlord/lessor and the payments are simply recorded as rent. The proposal on resource rent is reproduced below for convenience.

> *A* ***resource*** *lease is an agreement whereby the legal owner of a natural resource which has an infinite life makes it available to a lessee in return for a regular payment, recorded as property income and described as rent. The resource is recorded on the balance sheet of the lessor. No consumption of fixed capital is recorded in respect of the resource in the SNA in the accounts of either the lessor or lessee.*

A further question is therefore whether the concept of a resource rent is a useful means of describing the payments for the use of a resource which does not decline in value over the terms of a lease but where the user of the resource and the legal owner differ.

What happens if the lease is paid for up-front and is transferable along with any building on it (which may not belong to the landlord)? The answer may depend on the imminence of the end of the lease and the expectation of the lessee about the chances of renewal and any cost associated with a renewal. When it is feasible to predict a given cost of renewal, the tenant has in effect a liability towards the landlord of the net present value of the value of the land at the end of the lease and the technique proposed would accommodate this.

Reclassification of land

One question unresolved in Geneva was what would happen if the lessee changed the nature of the land, by improving it. There are two main scenarios to consider. One is that the landlord encourages the tenant to carry out improvements and allows the tenant to benefit from this without an increase in rent which matches the increase in economic rent the improvements bring. The landlord may or may not contribute to the cost of the improvements. The other possibility is that the tenant acts on his own initiative, on the basis that the yield from the land improvements will cover their cost and a return to the capital involved.

Under either scenario, the landlord eventually receives back from the tenant land with a value higher than when the lease started (still ignoring inflation). Even if the original value of the land remained on the landlord's balance sheet through out the lease, there is a transfer of wealth from the tenant to the landlord, representing the value in perpetuity of the land improvement.

The return to capital the lessee obtains from the land after improvement will considerably exceed the rent agreed on the basis of natural land but part of this should be regarded as property income paid to the lessor and then lent back to the lessee for the duration of the lease so that at the end of the lease this "loan" has increased in value from the value of the land in its natural state to the value it has after the improvements.

Licence for extraction

The question of shared mineral deposits can be addressed with this approach also. The extractor has the mineral deposit on his balance sheet but also has a liability towards the owner (possibly government) equal to the expected future royalties payable to the owner. As before, these royalties are paid from the return to capital accruing to the extractor from his production process. This liability would be shown as an asset on the owner's balance sheet. Payments each year would reduce the size of the owner's asset but increases in its value due to new discoveries or technologies would be easy to record via the other changes in volume of assets account and would not give rise to the sorts of problems which would be associated with a simple financial lease covering the whole value of the deposit[6].

Licence for the spectrum

The last matter to consider is whether this paradigm would also work for the radio spectrum. It would seem the answer is yes but some changes would need to be made to the position taken by the ISGWNA in 2001. The most important change would be to say that it is the spectrum which is sold and not a licence. It is sold only for a period of years, and as in the case of land, there is a value at which it should be returned to its owner (government). As in the preceding cases, the spectrum user has a liability towards the owner equal to the net present value of the spectrum at the time the licence to use it expires. Some part of the return to capital on the capital is routed via the owner to augment this liability so that at the point the licence expires, the use has an asset (the spectrum) and a liability of exactly equal and offsetting amounts.

Other changes to the position taken in 2001 would be that the transferability or not of the licence would not be a determining factor in whether the owner received rent over a period of years or sold an asset. However, the other conditions on the distinction in that paper could be generalised as follows.

If the legal owner of an asset, produced or non-produced, makes it available to a user for a period of years during which time the user acquires all the risks and rewards associated with the asset in an way unfettered by conditions of use imposed by the owner, this should be treated as the sale of an asset for the period in question irrespective of whether the payments under the agreement are regular payments over the life of the agreement or a single up-front payment. If the payments to be made are regular and are fixed in advance, the agreement is treated as a financial lease and the payments represent both payment of interest and repayment of principal over the length of the lease. The value of this loan is the value of the full market price of the asset less the net present value of the value it is expected to have at the end of the lease[7]. In addition, the lessee acquires a liability to the owner for the net present value of the asset at the end of the lease. The value of this liability increases during the lease until at the end of the lease it is equal to the market asset of the asset at that time.

In a case where a unit purchases an asset outright but only for a fixed duration and the residual value of the asset reverts to the legal owner at the end of the agreement, there is a sale of the asset equal to the market value less the net present value of the residual value. Deductions from the return to capital are routed via the legal owner's account so that the value of the liability of the user towards the owner is exactly equal to the residual value of the owner at the end of the agreement. The user then hands over the asset to the legal owner in settlement of his outstanding liability. In this way the amortization of the asset is tracked through the flow accounts and not in the other changes in assets account.

If the legal owner of an asset, produced or non-produced, makes it available to a user for a period of years during which the owner retains all the risks and rewards associated with the

[6] Trying to set up a financial lease is fraught. It is most unlikely that at the initiation of the lease it is possible to determine the length of time over which extraction will occur, and the revenue from the extraction is uncertain since this will be determined by movements in prices and the impact of new discoveries and new extraction techniques. Any estimate of the value of a "loan" would be subject to major revisions year by *year* and the separation of the payments to the legal owner into a repayment of principle and interest would be contestable

[7] In fact this should be true whether the asset is to be returned to the owner or not. This covers the case where the lessee may sell the asset tot a third party in order to pay off the second loan to the lessor.

asset or constrains the user from exercising these benefits fully, then the asset remains on the balance sheet of the owner. Payments made by the user are treated as regular payments of rentals (in the case of produced assets) or rent (in the case of non-produced assets) even if the conditions of the lease are such that a single up–front payment is made by the lessee for the whole of the lease period. In this case, the up-front payment is recorded as a trade credit extended by the lessee to the lessor which is used to make the regular payments on an accrual basis.

Questions to the members of the Canberra II Group

Q1. Do you think that any lease of a produced asset for less than the entire life of the asset should be automatically treated as an operating lease? If no, is this a change or a clarification of the 1993 SNA?

Q2. Assuming a financial lease may be for less than the whole of the life of a produced asset, how would you prefer to record the partition of ownership between the legal owner and economic owner of an asset.

The same sort of solution as for a transferable operating lease?
The mobile phone licence solution
The alternative, two financial asset solution
Another (please specify)

Q3. To record the partition of ownership of a mineral deposit between the extractor and the owner would you prefer:

The same sort of solution as for a transferable operating lease?
The mobile phone licence solution
The alternative, two financial asset solution
Another (please specify)

Q4: Do you agree that the concept of a resource rent is a useful means of describing the regular payments for the use of a resource which does not decline in value over the terms of a lease but where the user of the resource and the legal owner differ?

Q5: To record the partition of ownership of land under a long lease paid for up front would you prefer:

The same sort of solution as for a transferable operating lease?
The mobile phone licence solution
The alternative, two financial asset solution
Another (please specify)

Q6: To record the partition of ownership of a radio spectrum between the user and owner would you prefer:

The same sort of solution as for a transferable operating lease?
The mobile phone licence solution
The alternative, two financial asset solution
Another (please specify)