



STATISTICS

INTER SECRETARIAT
WORKING GROUP ON
NATIONAL ACCOUNTS

Payments for Nonproduced Knowledge-based Capital (Marketing Assets) (G.9) (BOPCOM VM1 22/10)

Joint (Virtual) Thirty-Eighth Meeting of the IMF Committee
on Balance of Payments Statistics and Eighteenth Meeting
of the Advisory Expert Group on National Accounts

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Outline

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Issues for Discussion

Marketing assets consist of items such as brand names, mastheads, trademarks, logos, and domain names (*BPM6* paragraph 13.17 and *2008 SNA* paragraph 10.198).

A key driver of brand value and corporations invest in building and supporting their brands to differentiate their products and develop a positive emotional connection with their customers.

Conceptual issues:

- ✓ whether marketing assets should be maintained as being nonproduced non-financial assets and the treatment of the corresponding flows.
- ✓ whether marketing assets could be re-examined as produced non-financial assets.

Option I: Marketing Assets are treated as Produced Non-Financial Assets

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- Definition of intellectual property products expanded to include marketing assets.
 - Potential creation of a separately identified subcategory.
- **Payments for the use of a marketing asset (franchise fee):** would be recorded as output in the form of the sale of a service. => exports/imports recorded in services.
- **Outright acquisition/sale of a marketing asset:** recorded in the goods and services account.
- **Sub-licensing a marketing asset:** license to reproduce a marketing asset (if meets asset requirement) change in the economic ownership of (part of or whole of) the underlying marketing asset.

Option II: Marketing Assets are maintained as Non-Produced Non-Financial Assets

OPTION II: Maintain treatment of Marketing Assets as Nonproduced Non-Financial Assets => requires consistent guidance between BPM and SNA

- How then to record payments for the use of a marketing asset (franchise fee)? Under Services, Income, or both?
 - ▶ SNA is silent on the treatment
 - ▶ *BPM6* desirable to separate the income and service elements but generally not feasible... Convention: record the entire amount under services (charges for the use of intellectual property)
- How should property income be recorded?

BPM6 and *2008 SNA* offer no options for recording the property income from non-produced assets, other than rent. *However, rent is the return on natural resources.*

Global Consultation Outcomes (1/2)

- Large majority of respondents favored **OPTION I: Marketing Assets are treated as Produced Non-Financial Assets on a conceptual basis.**
 - **38 out of 52 respondents (73 percent)**
 - Marketing assets meet the SNA and BPM definitions of produced assets
- Similar majority (**73 percent** of responses) supported **creating a new subcategory of produced assets within intellectual property products for marketing assets.**
- **Large agreement (70 percent** of responses) that **sublicensing marketing assets** should be considered as a **type of license to reproduce** and treated as an asset if it satisfies the asset requirements.

But...

- Majority of respondents (**67 percent**, 32 of 48 responses), based on current experience, **could not adequately measure the current production** of marketing assets and include them in measures of gross fixed capital formation.
- One-third indicated they could if appropriate guidance was given => some indicated new data collection is needed or modification to current surveys.

Global Consultation Outcomes (2/2)

- If status quo is maintained...
- Treatment of transactions related to the rights to use marketing assets
 - Slight majority of respondents—**27 out of 52 respondents (52 percent)** stated that it should be **split between services and income** (*BPM6* flexible option).
 - **40 percent** full amount should be recorded in services (*BPM6* default)
- **78 percent** of responses **agreed that the definition of property income be expanded** to include a subcategory for payment for nonproduced nonfinancial assets other than natural resources,
 - Most of which (**65 percent**) preferred to call this category “*rent on other nonproduced nonfinancial assets*”.
- Current practice: A strong majority (90 percent of 40 responses) record international transactions in the right to use marketing assets in **services**.

October/November 2021 AEG and Committee Discussions

October 2021 BOPCOM meeting, **Committee members stated marketing assets should conceptually be considered as produced but acknowledged practical difficulties.**

- supported signaling the preferred conceptual treatment in updated manuals; could announce that a change in the standards would be adopted in the next review round, allowing countries enough time to undertake extensive testing and facilitate implementation
- If status quo maintained in next update, views were split on how to record transactions in the rights to use marketing assets.
 - A higher proportion of Committee members favored recording under services—the default solution in *BPM6*—but some felt that the proposal of recording marketing assets under income would be more consistent.
 - Members considered that the definition of property income could be expanded to include a subcategory for payments for non-produced non-financial assets other than natural resources.

November 2021 AEG meeting, **agreed marketing assets, conceptually, are produced assets but highlighted measurement challenges.**

- Requested testing of recommendations.

Next Proposed Steps

- Special session on marketing assets is planned for the UNECE Expert Group on National Accounts May 2022 virtual meeting
- Will engage the GZTT and respondents to see if they can conduct research into treating marketing assets as produced.
- Cut-off for any testing will be December 2022.
- Update GN, pending results of testing?

Questions for the Committee and AEG

- 1. Do the Committee and AEG agree that the GZTT undertakes a targeted testing to be completed by the end of 2022 before deciding on the conceptual recommendation?*
- 2. Do the Committee and AEG agree to consider the suggested approach to signal that the preferred concept is to treat marketing assets as produced but state it will not be implemented in the next update? (The idea being to allow time for compilers to undertake the needed research.)*
- 3. If the status quo is maintained (i.e., marketing assets are nonproduced), do the Committee and AEG agree that clearer guidance is still needed on the treatment of payments for the rights to use marketing assets, whether (i) splitting between services and income (option in BPM6, if information is available); (ii) as services (the default solution in BPM6, if a split is not possible); or (iii) as income.*
- 4. Do the Committee and AEG agree that a new subcategory for payment for nonproduced nonfinancial assets other than natural resources be created?*