

**MINUTES OF THE ISWGNA MEETING OF APRIL 4-6, 2001  
(HELD AT THE IMF OFFICES, WASHINGTON, D.C.)**

The meeting was attended by Adriaan Bloem (IMF, chair), Lidia Bratanova (UNECE), David Cieslikowski (World Bank), Christina Hannig (UNSD), Lucie Laliberté (IMF), Brian Newson (Eurostat), Paul McCarthy (OECD), René Rakatobe (UNECA), Paul Schreyer (OECD), and Viet Vu (UNSD).

Sections of the meeting were attended by Paul Cotterell (IMF), G.J.Eding (Statistics Netherlands), Segismundo Fassler (IMF), Cor Gorter (IMF), Robert Heath (IMF), Claire Liuksila (IMF), Robin Lynch (ONS), Nils Maehle (IMF), Raffaele Malizia (ISTAT), Brent Moulton (BEA), Manik Shrestha (IMF), Helen Tice (John Hopkins University).

**Agenda item 1. Adoption of Agenda**

The draft agenda was adopted with minor changes. The meeting decided that Mr. Bloem would also chair the special meeting on the treatment of mobile phone licenses for which the full day Of April 5, 2001 was reserved.

**Agenda item 2. Review actions agreed upon at the last meeting**

New developments are entered in italics.

<b>Action</b>	<b>Responsible</b>	<b>By when</b>	<b>Comments</b>
1) Write to Statistics Netherlands to explain why their suggested changes were not incorporated into the revised chapter 18 of SNA93	UNSD	Asap	<i>Done.</i>
2) Circulate proposal for ISWGNA website to ISWGNA members for comment	UNSD	31 Oct 2000	<i>Not yet done, but will be achieved within a few weeks. The work related to putting the 1993 SNA on the internet with data search and other capabilities required six months consultancy. Some very useful comments on this project have been received.</i>
3) List of QNA related terms to be added to the SNA Glossary			<i>On second thought, a glossary of QNA terms would become too technical to easily digest. The new IMF QNA Manual will include an extensive index rather than a glossary.</i>

4) E-mail a copy of the French version of the SNA Glossary to all ISWGNA members	OECD	16 Oct 2000	<i>Done.</i>
5) Send to ISWGNA a checklist of the processes required for release the booklet showing the changes to the SNA approved by the UNSC	UNSD	31 Oct 2000	<i>Not yet done. The release of the booklet will require clearance concerning copyrights from each co-publishing organization. UNSD will provide specimen letters. The letters should also indicate how many copies of the booklet will be acquired (at 60% discount resulting a price of around US\$8.00)</i>
6) Circulate a copy of OECD meeting papers on employment	OECD	Asap	<i>Done.</i>
7) Send revised text for the ISWGNA report to the UNSC and updated meeting etc and manuals lists to UNSD	All ISWGNA	2 Oct 2000	<i>Done.</i>
8) Prepare a list of “City Group” manuals	UNSD	16 Oct 2000	<i>Not necessary as it appears from the papers for the Statistical Commission. Three manuals were expected: SEEA 2001 (London Group), Measuring Capital (Canberra Group), and Guidelines on Income Distribution (Canberra Group on Household Income Distribution).</i>
9) E-mail a copy of the revised SNA chapter 18 to ISWGNA members	OECD	Asap	<i>Done.</i>

10) Present report of the quality pilot tests to the April 2001 ISWGNA meeting	IMF	April 2001	<i>The IMF made an oral presentation during the meeting. A note was promised for SNA News &amp; Notes.</i>
11) Circulate revised wording of the compliance checklist questions and draft covering letters for this and the scope questionnaires to ISWGNA members for comment	OECD	16 Oct 2000	<i>Not done. The UN questionnaire had already been sent out.</i>
12) Send a reply to John Walton	OECD	31 Oct 2000	<i>Not yet done. Discussed under agenda item 6 (b) of this meeting</i>
13) Find a potential moderator for the accrual accounting EDG; send details to ISWGNA members for comment	IMF	31 Oct 2000	<i>IMF is moderating the EDG but has difficulty in coming to a conclusion due to internal differences of view.</i>
14) SNA News & Notes (issue 12)			<i>All done.</i>
a) share options	OECD	16 Oct 2000	
b) mobile phone licenses	OECD	16 Oct 2000	
c) manual on international trade in services	OECD	16 Oct 2000	
d) tourism satellite accounts	OECD	16 Oct 2000	
e) inconsistency in treatment of intellectual	UNSD	16 Oct 2000	
15) SNA N & N (issue 13)			<i>No material has been received as yet. The deadline for submission is end of April 2001. Expected month of publication is June 2001.</i>
a) prices and volumes manual	Eurostat	31 Mar 2001	
b) March 2001 UNSC decision on milestones	UNSD	31 Mar 2001	
c) data quality issues	IMF	31 Mar 2001	

d) SEEA manual	OECD	31 Mar 2001	
e) Launch ISWGNA website	UNSD	31 Mar 2001	
16) Provide details of proposed new split of GFCF to Eurostat	OECD	31 Oct 2000	<i>A two-page proposal had recently been sent to Eurostat.</i>
17) Draft response to Thai central bank on non-performing loans; circulate to ISWGNA members for comment	OECD	31 Oct 2000	<i>A response had been sent. Further action is needed in view of the answer by the authorities.</i>
18) Draft paper on implications of changing in the SNA93/ESA95 questionnaire the new treatment of financial derivatives.	Eurostat and OECD	31 Dec 2000	<i>Deliberately not done and no longer needed. The issue was complicated by opposition of EU government debt managers against the new treatment. For the purposes of the excessive debt calculation, the old treatment is accepted as an alternative. It should be noted that EU countries introduced the new recommendation at varying points in time.</i>

**Agenda item 3. Report on the 2001 UN Statistical Commission's reaction to the ISWGNA report**

For discussion of this agenda item, the meeting had been provided with a document containing the 2001 UN Statistical Commission (UNSC) report on agenda item 4(a): National accounts. This report stated the actions taken by the UNSC after the discussion of the Report of the Task Force on National Accounts (E/CN.3/2001/7) and the Report of the Secretary General on the assessment of the implementation of the System of National Accounts 1993 (E/CN.3/2001/8). Ms. Cristina Hannig provided a brief oral summary of the main views expressed and actions taken by the members of the UNSC highlighting those that required specific review or action by the ISWGNA, i.e. to find more neutral names to the three data sets comprising the new scope of the accounts (minimum, recommended, desirable), to review the treatment of intangible assets and report back to the UNSC in 2002, to make a decision as quickly as possible on the national accounting treatment of mobile phone licenses

#### **Agenda item 4. Assessment of the implementation of the 1993 SNA**

This point involved a reflection and update on the new approach proposed by the ISWGNA to assess the extent to which the *1993 SNA* has been implemented by individual countries. For various reasons the ISWGNA had proposed to UNSC a more comprehensive approach to the assessment than the ‘milestones’ developed in 1995 for this purpose, that included the examination of three dimensions: (a) scope of the accounts, (b) compliance with *1993 SNA* concepts, and (c) quality issues. Within dimension (a), three levels had been distinguished: minimum requirement, recommended, desirable. Concerning dimension (b), a list of key conceptual differences between the *1993 SNA* and the *1968 SNA* had been drawn up. The UNECA and the UNECE had pilot-tested both dimensions (a) and (b) in their respective regions. On quality issues, the ISWGNA had decided to monitor the framework for quality assessment that the IMF is developing and testing in Korea and other countries. Five of the six member countries invited by the 2000 session of the Statistical Commission as ‘Friends of the Chair,’ to provide comments on the new ISWGNA assessment had sent them and the ISWGNA produced a note in response to the comments and was presented to the 2001 UNSC as a background document

##### **(a) Quality**

Mrs. Claire Liuksila informed the meeting of new developments concerning the IMF’s Data Quality Assessment Frameworks (DQAFs). DQAFs distinguish five dimensions of quality (integrity; methodological soundness; accuracy and reliability; serviceability; accessibility) in addition to pre-requisites of quality. Within these first-digit categories, various levels are distinguished: elements, indicators, focal issues, and key points. For each of the major macroeconomic statistics in which the Fund is involved, a DQAF will be developed. All DQAFs are identical up till the indicators level. The project of developing DQAFs should be finalized by the end of 2001. DQAFs will, among other things, be used as tool for the preparation of Reports on Observance of Standards and Codes (ROSCs). The Fund’s Statistics Department planned to publish 15 ROSCs in the upcoming year.

Mr. Adriaan Bloem said that prototypes of the national accounts DQAF had been tested in a number of countries. Because it is impossible to weigh the various elements of quality, no attempt will be made to come to an overall assessment in the form of a score. The meeting reacted by saying that the DQAFs look very comprehensive and may also be used by countries for self-assessment.

One participant found the questions asked on the percentage that observed data account for the full estimate of particular national accounts variables rather confusing and proposed that clarifications be added. It was also stressed that crosschecking estimates on consistency may be more important for quality than a high percentage of observed data in the total estimate. The question was asked whether DQAFs distinguish sufficiently between developed and developing countries. A participant underlined that DQAFs should not be used for ranking of countries. Issues that could be further developed would include: more weight to the income

approach, more attention to price and volume measurement, questions about business and academic usage of the statistics, attention to sufficient funding of the compiling agency.

The meeting discussed to what extent DQAFs could be used for the ISWGNA assessment on the implementation of the 1993 SNA. One participant was of the opinion that DQAFs are not practical for this purpose: too detailed and no direct comparison between countries. It was suggested that a self-assessment by countries on a simplified version (possibly the Fund's 'lite' version) would be appropriate and at any rate much better than the old 'milestones.' On the other hand, the opinion was voiced that self-assessment would not be reliable. Because for the main alternative, external auditing, no funds are available, it was agreed that the ISWGNA should act carefully in this domain.

Participants indicated that papers for the meetings should be sent well in advance in order that reactions could be better prepared. The IMF promised to provide its 'lite' DQAF by July 2001, so that the ISWGNA would be able to revisit these issues in its October 2001 session.

***(b) Compliance with 1993 SNA concepts and scope of compiled accounts***

The meeting recalled that pilot-tests organized by the UNECA and UNECE had different success as the ECA had experienced rather low response rates. The applicability and relevance of some items in the compliance questionnaire for the developing countries were queried, such as on the treatment of defense expenditures. Also the way questions had been asked could be seen as suggestive, or would generate answers that tell little about the quality of the estimates made (for instance, related to the consumption of fixed capital concerning roads and bridges).

The meeting discussed a first preliminary report prepared by UNSD on the conceptual implementation of the 1993 SNA based on replies to the conceptual questionnaire sent to all developing countries by UNSD and to all transition countries and three developed countries by UNECE.

It was decided that efforts would be undertaken to reduce the length of the compliance questionnaire and to reformulate the questions where appropriate [Which member organization of the ISWGNA volunteered or agreed to do this ??? and by when ???]. UNSD was encouraged to use the revised and reduced questionnaire for its reporting and when doing future assessments take the average of "yes" and "no"s.

Regarding the terminology used to distinguish the three data sets of the new scope of the accounts, after some discussion the meeting agreed to retain the names (minimum requirement, recommended, desirable) rather than change them for example to level 1, level 2 and level 3 respectively. The reasoning behind this decision is that they reflect more explicit the intention or purpose assigned to each of data set.

*(c) Assessment report for the next meeting of the Statistical Commission*

The meeting decided that a new assessment report to guide the provision of technical assistance is not needed to be presented on an annual basis to the UNSC.

*(d) The Statistical Commission's Friends of the Chair*

The meeting discussed the various suggestions made by the "Friends of the Chair" to widen the scope of the assessment questionnaire. In most cases, these were not seen as useful criteria. More serious was that several members of the "Friends of the Chair" clearly had misunderstood the purpose of the exercise and the OECD volunteered to draft a letter responding to the comments received.

**Agenda item 5. Consultative/Advisory Group to the ISWGNA**

A discussion took place on whether a consultative or advisory group to support the work of the ISWGNA should be created, and if so, what would be the group's (or groups') composition and terms of reference.

The experience with the "Friends of the Chair" indicated that there might be room for developing further procedures to explain the ISWGNA's work. The idea of constituting an advisory group to the ISWGNA had been floated already several years ago. However, various alternative forms of communication had been developed since that time, among which the electronic discussion groups, publication of the minutes of the meetings, etc. It was felt that rather than comments on the output of the ISWGNA (such as the "Friends of the Chair" had produced), advice on highly technical issues as an input to the ISWGNA's discussions was needed.

Following this line of thought, it appeared appropriate that a list would be drawn up of people who combine a large expertise in various domains with a generalist view on national accounting and who would be prepared to advise the ISWGNA on issues like, for instance, how to move forward with the research agenda. These experts would largely communicate with each other by e-mail, although personal meetings might be effective from time to time. An important precondition would be that financing be found for the anticipated costs, as even a group exclusively communicating by e-mail would need a secretariat of some sort.

The meeting decided that, on invitation of UNSD, the various regional organizations would try to identify experts that have the required qualities to be members of a consultative/advisory group to the ISWGNA. This does not exclude that independent experts may be asked to be member of the consultative/advisory group. In all cases, the experts should only represent themselves and not the organizations with which they are affiliated. The group could comprise about fifteen people. It was decided that the list of experts and the terms of reference for the group should be available in time for the October 2001 meeting.

**Agenda items 6. and 7.      Research agenda, conceptual questions, and EDGs**

**(a)      *General issues***

Mr. Brian Newson had a general comment concerning the research agenda and conceptual issues. It would be highly recommendable that the ISWGNA members have papers at their disposal that discuss these technical issues in preparation of decisions by the Group. While the lack of such papers is understandable in cases that an urgent request for the opinion of the ISWGNA is received, the absence of basic papers tends to prevent effective decision-making.

The Group agreed with this position and noted that various procedures could be followed to generate such discussion papers, depending on the issue at hand. In many cases it would seem appropriate that one expert or lead organization should define the problem, give an overview of possible solutions, and formulate a proposal. The document prepared should subsequently be discussed by a broader group of experts reflecting the countries that are exposed to the problem. For instance, on the treatment of stock options, mostly developed countries should be represented, whereas the issue of inflation accounting should involve a wider selection of countries. These expert discussions should result in a second document that also would serve to facilitate the ISWGNA coming to a decision/opinion.

Yet, other procedures might also be chosen depending on the time frame within which an opinion or decision is needed and on the character of the problem. For some highly technical issues the hiring of a consultant should be considered; more general problems might be addressed by the working parties of the international agencies or by sounding out the more general public by way of the creation of an electronic discussion group (EDG).

The meeting agreed that a more systematic approach to tackling the SNA research agenda and other conceptual questions requires that a schedule be devised on when the various topics will be addressed. It would be helpful if a two-year plan be available for discussion in the Group's October 2001 meeting (this was seen a more suitable than tabling such a plan in the UNECE meeting).

During the discussion, many outstanding issues were mentioned, including the treatment of intangibles, stock options, mobile phone licenses, transfer costs, the Vanoli-Hill difference of opinion on accounting for inflation (Eurostat will make an effort to come to a solution), accrual accounting of interest, nonperforming loans, consumption subsidies, capitalization of defense expenditures, capital services, unfunded pension schemes, the issue of capital gains in the banking sector brought up by the Swiss.

**(b)      *Reinsurance (John Walton's letter of August 15, 2001)***

Mr. Paul McCarthy recalled the three main points made in Mr. Walton's letter (i) the treatment of reinsurance share on the premium supplement, (ii) rebates on reinsurance commission fees, and (iii) the exclusion of holding gains on reserves from the value of insurance transactions.



No extensive discussion took place on the kind of action to be taken.

**(c) *Intangible non-produced assets***

No separate extensive substantive discussions (see the following item). Eurostat will look into the possibility of providing funds to finance a consultant to prepare a discussion paper for the next ISWGNA meeting. It should be just an exploratory paper describing the issues, problems and possible solutions.

**(d) *Mobile phone licenses (special meeting with invited experts)***

See Annex 4 (for the minutes of the special meeting) and Annex 5 (explanation of the ISWGNA decision).

**(e) *Treatment of transfer costs and improvement to land***

On the basis of Mr. Van der Ven's summary of issues that was presented at the OECD, there does not seem to be reason to change the current recommendations of the 1993 SNA. The OECD will close the EDG and prepare a clarifying note for publication in SNA News and Notes.

**(f) *Accrual accounting for interest***

Mr. Cornelis Gorter reported that 70 reactions had been received on the questionnaire set out by the IMF. Weighting all responses equally, the majority indicated the debtor approach as the conceptually correct solution for all four macroeconomic statistics (national accounts, balance of payments, government finance, money and financial statistics). The EDG monitored by the IMF had not generated any comments beyond those received during the first few months after its creation. The IMF promised a document containing a proposal on this topic for the October 2001 meeting.

**(g) *Treatment of interest under conditions of high inflation***

The World Bank will maintain the EDG and will ask Mr. Robin Lynch continue its moderation.

**(g) *Unfunded pension funds for government employees***

There is no EDG on this topic and the meeting did not think it would be appropriate to establish one at this point in time.

**(h) *Stock options***

The treatment of stock options had, among other things, been discussed at the February 2001 Eurostat meeting of the national accounts working party and the March 2001 OECD meeting of financial specialists. The Eurostat meeting came to the conclusion that the preferred classification should be Compensation of employees. In contrast, the OECD meeting had not led to a clear consensus. The OECD had prepared a note on this issue for publication in SNA News and Notes.

It was decided that the OECD would post all available documents on this topic on the web. The OECD would also ask Mr. Charlie Aspden whether he would be prepared to monitor an EDG on stock options.

*(i) Treatment of nonperforming loans*

The Thai authorities had asked the ISWGNA to clarify to what extent interest should be accrued on nonperforming loans. The ISWGNA had requested some additional information in November 2000, on which an answer was received in December 2000.

Mr. Brian Newson noted that the application of the 1993 SNA accrual principle caused many problems, e.g., concerning taxes, nonperforming loans, and quite recently regarding the effects of foot and mouth disease on the recording of agricultural production. It might therefore be necessary that the ISWGNA revisit this principle at some point in the future. Other participants agreed and pointed out that although the accrual principle seems to indicate that both accrued flows and losses on these flows should be recorded gross, sometimes the System treats losses on a net basis. For instance, the SNA cancels 'normal' losses encountered in the production process out against the value of output.

In view of the difficulty of the subject, and also the probably widely varying experiences of individual countries, the chair proposed that the ISWGNA would not try to find final answers in the current meeting. Instead, the application of the accrual principle should be added to the research agenda. As regards the specific case of the treatment of nonperforming loans, the IMF had prepared an internal discussion note, which it promised to share with the members of the ISWGNA. It was felt that the members of the ISWGNA should be able to come to a common opinion on how to answer the Thai question before the October 2001 meeting; the discussion could take place by e-mail.

**Agenda item 8. SNA News and Notes**

For SNA N&N edition 13, in addition to the items agreed at the September 2000 ISWGNA meeting and listed under agenda item 2 above, the OECD would prepare a contribution on 'Costs incurred in transferring ownership of assets;' the electronic discussion on this topic would be closed shortly.

In SNA N&N edition 14, contributions would include the ISWGNA interpretation of the 1993 SNA concerning mobile phone licenses, and the announcement of the OECD electronic discussion group (ECD) on the treatment of share options. Eurostat indicated that the issue of

share options would be reviewed in the October 2001 meeting of its national accounts expert group.

**Agenda item 9. Handbooks and manuals**

**(a) *Handbook on Non-Profit Institutions***

Mrs. Helen Tice of the John Hopkins University informed the meeting on the status of the *Handbook on Nonprofit Institutions in the System of National Accounts*. The definitions in the *Handbook* are generally consistent with the 1993 SNA, the classifications used are either those of the SNA or derivable from the SNA, but the boundaries has been expanded to include volunteer labor and cooperatives, mutuels, etc. that have no profit motive, usually resulting in negative operating surpluses. Pilot tests had been conducted in Australia, Italy, South Africa, Thailand and other countries, for which the results were just coming in. A joint meeting of the test group representatives, the consultative group for the project, and a UN experts group will be held in New York during July 8-10, 2001. A revised draft will be available for circulation and comment by October 2001, and the *Handbook* will be presented to the Statistical Commission at its 2002 session. The project's website can be found at <http://www.jhu.edu/~gnisp>.

The meeting welcomed the progress made and expressed broad support for the *Handbook*. Some discussion took place on the difficult borderline between market producers and non-profit institutions in the case of cooperatives and mutuels.

**(b) *Revised Government Finance Manual***

Mr. Paul Cotterell informed the meeting that the IMF is close to finalization of the revised *Government Finance Manual (GFSM)*. The revision will harmonize to a very large extent the *GFSM* with the 1993 SNA. However, there are (relatively small) differences in, among other things, the treatment of reinvested earnings and government employee pension funds. Differences between the *GFSM* and the 1993 SNA will be spelled out in an Annex. As an outflow of an expert group meeting that took place in February 2001, the *GFSM* sections on the public sector will be developed somewhat further.

**(c) *External Debt Manual***

Mr. Robert Heath informed the meeting of the progress being made with the draft *External Debt Statistics: Guide for Compilers and Users Guide (Guide)*. The *Guide* is being prepared through cooperation among nine international agencies. This project began in 1999, a first draft was available by March 2000, and one year later a second draft of the *Guide* was sent out for public comment, by June 8, 2001. The intention is to finalize the *Guide* in 2001, and certainly well before the first quarter of 2003, which is the end of the transition period for the new external debt category of the SDDS.

The *Guide* will be globally consistent with other current international guidelines for macroeconomic statistics e.g., *SNA 1993* and *BPM5*, allowing the gross external debt position to be derived from the International Investment Position (IIP). But in view of the different kinds of use that are made of external debt data, in the second draft two other gross external debt position measures are outlined. These measures incorporate *1993 SNA /BPM5* principles but with important deviations. In both, traded securities are valued at nominal value (as compared with market valuation in the *1993 SNA* and *BPM5*), and in one of the measures interest is recorded on a due-for-payment basis if paid out periodically (as compared with an accrual basis in the *1993 SNA* and *BPM5*).

Further, the Guide defines concepts not covered in *1993 SNA* and *BPM5*, but relevant for debt analysis, including the compilation of a debt-service payment schedule and external debt by currency of denomination, which are elements of the SDDS data category. Also specified is external debt measured on a short-term remaining maturity basis.

Apart from a conceptual framework, the draft Guide also includes discussions on compilation practices and the analytical use of external debt data.

**(d) *Updates to the 1993 SNA***

The UNSD presented a first draft of the updated booklet of the 1993 SNA presenting changes to the text of the 1993 SNA. This booklet would be the first in a series, and cover changes in respect of the measurement of financial derivatives, the introduction of the four revised functional classifications, and an updated table concerning the Central Product Classification.

The meeting decided that it would be best to publish the revised text only: changes from the old text could be analyzed by accessing the UNSD website. No decision emerged on whether every text section and table that in some way would be affected by the revisions should be published in the booklet. The booklet should contain a short general introduction and explanations for each of the three types of amendments. Comments on these texts would be provided by e-mail after UNSD circulates a semi-final version of the update booklet

**(e) *Other***

Participants gave an overview of Manuals and Handbooks being prepared by, or with support of, their organizations.

	<i>Notes:</i>
<i>UNSD:</i> Practical Introduction to SNA Compilation	planned to be submitted to publication in 3 <sup>rd</sup> Q of 2001 after circulating it for views and comments to the ISWGNA
Use of macro accounts for policy analysis	formal editing finalized and will be published within in 3 <sup>rd</sup> Q of 2001
ISIC rev 3.1	planned for 2002
CPC 1.1	planned for 2002
	ISIC rev. 4
	planned for 2007
<i>CPC 2.0</i>	planned for 2007
<i>Eurostat:</i> Price and Volume Handbook	publication in September 2001
<i>OECD:</i> Measuring Capital Manual	available on the web, see further <a href="http://www.oecd.org/std/nahome.htm">http://www.oecd.org/std/nahome.htm</a>
<i>OECD Manual on Productivity Measurement</i>	available on the web, see further <a href="http://www.oecd.org/subject/growth/an_ec_gr.htm">http://www.oecd.org/subject/growth/an_ec_gr.htm</a>
<i>Eurostat/IMF/OECD/WTO/UNSD/UNCTAD</i> Manual on Trade in Services	submitted to the UN for publication
<i>Eurostat/IMF/OECD/UNSD/World Bank System</i> of Environmental and Economic Accounting 2000	draft finalized by London Group by end July, 2001
<i>UNECE/ILO:</i> Revised Consumer Price Manual	first draft by November 2001
<i>IMF:</i> Textbook on Price and Volume Measures in the National Accounts	planned for early 2002
Producer Price Manual	planned for end 2001

The IMF also mentioned that it is developing packages for calculate holding gains/losses on inventories and compile foreign trade price and volume indices.

## 9. Meetings, training and seminars

The UNSD is organizing an Expert Group Meeting on the *Non-Profit Institutions* in the 1993 SNA that will be held in New York from 10 to 12 July 2001. Also is organizing the Expert Group Meeting on Classifications to be held in New York from 18 to 20 June 2001 and the Technical Sub-group Meeting on Activity and Product Classifications, New York 21-22 June 2001. UNSD is organizing three workshops in 2001 related to the implementation of the 1993 SNA: one jointly with the ASEAN Secretariat and ADB that will be held in Manila in May 2001; a second one jointly with UNESCWA that will be held in Beirut, 22-26 October 2001; and a third jointly with UNECLAC and the Central Bank of Chile that will be held in Santiago, November 2001.

UNECA will have various meetings on the implementation of the 1993 SNA and the measurement of household activities. Mr. Rakatobe also mentioned the seminar of the World Tourism Organization, Canada and other agencies on tourism satellite accounts in Toronto (May 2001) and the corresponding seminar in Morocco for French speaking African countries.

Eurostat will have its usual expert meetings in the coming period.

The UNECE will organise, jointly with OECD and CIS-STAT, a meeting on national accounts for CIS countries in May 2001 in St.Petersburg. The meeting will discuss issues of concern to those countries, such as quarterly national accounts, estimation of fixed capital consumption, Non-Observed Economy. In November 2001, ECE will have in Geneva a Consultation on the 1999 round of International Comparison of GDP in Europe.

The OECD will have, apart from its usual October national accounts experts meeting (October 9-12, 2001), special sessions on foreign trade (December 6-7, 2001), trade in services (December 10-11, 2001), and purchasing power parities for non-European OECD countries (planned for October 2001 in Mexico).

The IMF said its course program for the current financial year include a two-week price course in the Caribbean region and another one for Asian countries, two two-week courses in national accounts in the Arab region, and a six-week national accounts course in Washington D.C.

### **Agenda item 10. National accounts questionnaire (SNA93/ESA95)**

The OECD and Eurostat signalled the need to modify their joint questionnaire so as to obtain a more detailed breakdown of gross fixed capital formation by type of asset or by type of capital good. It was agreed that OECD and Eurostat would look into the matter and inform ISWGNA about the outcome.

**Agenda item 11. Other business**

The next meeting of the Group will be held in Geneva on 15 and 16 October, 2001. The ECE will provide secretarial support.

The Group thanked the IMF for hosting the present meeting. It said goodbye to Mr. McCarthy, who would be returning soon to his native Australia, and thanked him for his excellent contributions to the ISWGNA during his OECD period.

**ANNEX 1: List of participants**

**Eurostat**

Brian Newson

**International Monetary Fund**

Adriann Bloem, Paul Cotterel, Nils O. Maehle, Cornelis Gorter, Lucie Laliberté, Claire Liuksila, Manik Shrestha, Robert Heath, Segismundo Fassler

**Organisation for Economic Co-operation and Development**

Paul McCarthy, Paul Shreyer

**World Bank**

David Cieslikowski

**UN Economic Commission for Europe**

Lidia Bratanova

**UN Statistical Division**

Cristina Hannig, Viet Vu

**UN Economic Commission for Africa**

René Rakotobe

**Experts invited to the discussion on the treatment of mobile phones**

Rafaelo Malizia of ISTAT (Italy), G. J. Eding of the CBS (Netherlands), Robin Lynch of the ONS (United Kingdom) and Brent Moulton of the BEA (United States).

**Expert invited to report on the Handbook on Non-profit Institutions**

Helen Tice (John Hopkins University)



## **ANNEX 2: Agenda**

1. Adoption of agenda
2. Review actions agreed upon at the last meeting
3. Report pm the 2001 IM Statistical Commission's reaction to the ISWGNA
4. Assessment of the implementation of the 1993 SNA
  - Quality
  - Compliance with 1993 SNA concepts and scope of the accounts
  - Assessment report for the next meeting of the Statistical Commission
  - The Statistical Commission's Friends of the Chair
5. Consultative/Advisory Group to the ISWGNA
6. Research agenda associated with updating the 1993 SNA
  - Reinsurance (John Walton's letter of 15 August)
  - Intangible non-produced assets
  - Mobile phone licenses (special meeting with invited experts)
7. SNA conceptual questions and Electronic Discussion Groups (EDGs)
  - Treatment of transfer costs and improvement to land
  - Accrual accounting for interest
  - Treatment of interest under conditions of high inflation
  - Unfunded pension funds for government employees
  - Stock options
  - Treatment of nonperforming loans
8. SNA News and Notes
9. Handbooks and manuals
  - Handbook on Non-Profit Institutions
  - Revised Government Finance Manual
  - External Debt Manual
10. Meetings, training and seminars
11. National accounts questionnaire (SNA93/ESA95)
12. Other business

**ANNEX 3: Actions to be undertaken**

<b>Action</b>	<b>Responsible</b>	<b>By when</b>	<b>Comments</b>
1. Send copies of the “lite” DQAF to all members of the ISWGNA	IMF	<i>July 2001</i>	
2. Reduce the length and reformulate the questions where appropriate of the compliance questionnaire	UNSD	<i>September 2001</i>	
3. Use revised version of the SNA compliance questionnaire in the next UN annual national accounts questionnaire	UNSD	<i>September 2001</i>	
4. Draft letter responding to the comments made by Friends of the Chair to be sent by UNSD	OECD	<i>May 2001</i>	
5. Invite regional UN organizations to indicate suitable experts for the ISWGNA advisory group	UNSD	<i>Responses by September 2001</i>	
6. Look for funds to finance a consultant to prepare a discussion paper on intangible assets for discussion at the October 2001 ISWGNA Meeting	Eurostat	<i>May 2001</i>	
7. Prepare a document on a proposal on accrual accounting for interest for the October 2001 ISWGNA meeting	IMF	<i>September 2001</i>	
8. Answer Thai authorities that nonperforming loans issue will be addressed in October 2001	IMF	<i>October 2001</i>	
9. Make note on treatment nonperforming loans available	IMF	<i>May 2001</i>	
10. Devise two-year plan for attacking the research	IMF	<i>September 2001</i>	

agenda/outstanding conceptual questions for the October 2001 ISWGNA meeting			
11.Note on treatment of transfer costs on land	OECD	<i>May 2001</i>	<i>For SNA News and Notes 13</i>
12.Proposal on the accrual accounting of interest	IMF	<i>September 2001</i>	
13.Ask Mr. Lynch to continue moderating the interest under high inflation EDG	World Bank	<i>Asap</i>	
14.Put OECD and Eurostat papers concerning stock options on the web. Ask Mr. Aspden to monitor the EDG.	OECD	<i>Asap</i>	
15.Draft short introduction to DQAFs	IMF	<i>May 2001</i>	<i>For SNA News and Notes 13</i>
16. Prepare draft ISWGNA report to the 2002 UNSC for discussion and finalization at the October 2001 ISWGNA Meeting	UNSD	<i>September 2001</i>	
17. Prepare and circulate a semi-final version of the Update Booklet of the 1993 SNA to all members of the ISWGNA for final comments before submitting it for publication	UNSD	<i>July 2001</i>	

## **ANNEX 4:**

### **INTER-SECRETARIAT WORKING GROUP ON NATIONAL ACCOUNTS**

**Minutes of the Expert Group Meeting  
On the Treatment of Mobile Phone Licences in the National Accounts  
Washington, 5 April 2001**

#### **I. INTRODUCTION**

1. The Expert Group Meeting was called by the ISWGNA in response to the request of the United Nations Statistical Commission (UNSC) expressed at its last meeting in March 2001, “that the ISWGNA make decision as quickly as possible on the national accounting treatment of mobile phone licences”. The ISWGNA invited interested countries and experts to attend the meeting. This was the second meeting convened by the ISWGNA to discuss specifically mobile phone licences within less than a year. The previous special meeting of the ISWGNA was held on 23 June 2000 in Washington.
2. The meeting was attended by Mr. Rafaelo Malizia of ISTAT (Italy), Mr. G. Eding of the CBS (Netherlands), Mr. Robin Lynch of the ONS (United Kingdom) and Mr. Brent Moulton of the BEA (United States). Representatives of the secretariats which are members of the ISWGNA - Eurostat, IMF, OECD, UNSD, UN/ECA, UN/ECE and the WB also attended.

#### **II. ORGANISATION OF THE MEETING**

3. Mr. Adriaan Bloem of the IMF who is currently chairing the ISWGNA chaired the Expert Group meeting. The meeting had available for discussion the following papers: position paper from the ISWGNA, draft paper from the UK on Use of the Electro-Magnetic Spectrum – Treatment of Payments and the recent update of the IMF Working Paper on Treatment of Mobile Phone Licences in the National Accounts. Participants also had in front of them documents, in the form of comments, submitted by INE (Spain), Mr. Brent Moulton, BEA (United States), ABS (Australia), Ms. Anne Harrison (OECD), Statistics Canada, Mr. Robin Lynch, ONS (United Kingdom), INSEE (France) and the World Bank. The representatives of the CBS (Netherlands) and INSTAT (Italy) made oral presentations.

### **III. SUMMARY OF PRESENTATIONS AND SUBSEQUENT DISCUSSION**

#### **A. Position of the ISWGNA**

4. Mr. Paul McCarthy presented the position of the ISWGNA on the national accounting treatment of mobile phone licences, which is described in the report of the special meeting of the ISWGNA held in June 2000 in Washington. It was noted that the outcome of the special meeting was that the licences should be treated as intangible non-produced assets in their own right. Two important conclusions in support of making the decision were that: (i) the spectrum itself is a tangible non-produced assets and the SNA does not have to be changed to handle this, and (ii) transferability is a sufficient condition, but not a necessary condition, for identifying something as an asset: transferability was specifically mentioned in 1993 SNA in the context of identifying a market price.

5. It was also pointed out that the difference between the Eurostat and the ISWGNA treatments was that Eurostat set a threshold of a minimum 5 years life before the licences would be treated as an asset while the ISWGNA had stayed with the SNA criterion of one year.

6. Participants were informed that the treatment of the mobile phone licences was also discussed at the OECD national accounts meeting held in September 2000 in Paris. A paper presented by the UK Office for National Statistics (ONS) made a case for payments for the UK licences to be treated as a rent. Possible implications for other parts of the accounts were also considered. Following that session at the OECD meeting, the ISWGNA met again briefly to consider the issues raised during this discussion. There was a general agreement that nothing new had been added to the debate since the special ISWGNA meeting held in June and that the decision made at that time did not need to be changed. However, at the request of the ONS, the ISWGNA agreed to set up an EDG on the OECD national accounts web site in order to continue the debate on the issue.

#### **B. Treatment proposed by the UK ONS**

7. Mr. Robin Lynch presented the position of the UK Office for National Statistics. The ONS came to the provisional conclusion, after consulting the 1993 SNA and the ESA 95, that the spectrum was a tangible non-produced asset similar to land, and the payments should be classified as pre-payments for rent. This conclusion differs from the alternative proposal developed in the international debate since the issue arose in the beginning of 2000 to treat the payments as purchasing a license and show the payments reflecting the sale of an asset by the government to the companies.

8. However, it was pointed out that there is some common ground in the two treatments: (i) the electro-magnetic spectrum is a tangible non-produced non-financial asset; (ii) the licence

to use the spectrum is a separate asset, an intangible one; and (iii) up-front payments to use the spectrum can under some conditions be classified as pre-payment of rent.

9. The UK position to treat the initial payments for the use of the spectrum as rent was developed by drawing an analogy with land and its treatment as described in paragraphs 7.128 and 10.129 of the 1993 SNA. The attention of the participants was drawn to paragraph 7.128 which states that “...rent is recorded on an accrual basis, i.e. rent is treated as accruing continuously to the landowner throughout the period of the contract agreed between the landowner and the tenant. The rent recorded for a particular accounting period is, therefore, equal to the value of the accumulated rent payable over that period in time, as distinct from the amount due to be paid, or actually paid.” Paragraph 10.129 was also mentioned several times. It says that “the owner of sub-soil assets, who is often a government unit, may grant a concession or lease to another institutional unit entitling the latter to extract the asset over a specified period of time in return for a series of payments (usually described as royalties). This arrangement is similar to a landowner conceding to a tenant the right to exploit the land in return for the payments of rent, except that the subsoil assets are exhaustible. The payments are property incomes and recorded as rent. The holder of the concession or lease may be entitled, or permitted by the owner, to sell the concession or lease to a third party. Such a sale is recorded as the sale of an intangible non-produced asset”.

10. Several difficult issues with regard to the treatment of payments for use of the spectrum were mentioned. These include: (i) the possibility to classify a payment as rent when it is a lump sum; (ii) the use of an auction to determine the value of the payments; (iii) the treatment of the payments in the company accounts (e.g. companies reflect the licence payments in their capital and profit and loss accounts); (iv) transferability (the UK logic does not depend on the criterion whether the licence is transferable or not); (v) length of lease (the UK case does not depend on the length of the licence period); and (vi) difficulty in imputing payments over time (an argument against the rent treatment has been the difficulty of imputing payments for a future period far distant from the original payments).

11. In conclusion, it was stressed that the position of the UK ONS is that payments for licences to use the spectrum should be classified as rent where the ownership and permanent effective control of the underlying asset remains with the original owner. This implies the value remains in the original asset, and payments reflect the use of the asset by a second party.

12. It was also noted that the IMF paper is a useful step in assisting a fuller understanding of the issue, but significant areas remain where there is certain disagreement. Therefore, it was suggested that the debate must continue until there is a clearer consensus.

### C. IMF Working Paper

13. Mr. Nils Mahle (IMF) presented the IMF Working Paper on Treatment of Mobile Phone Licences in the National Accounts. A re-drafted version of the paper, which was first available in June 2000 was posted on the EDG web-site a few days before the Expert Group meeting. It was stressed that the document should be regarded as a research in progress and the views expressed are those of the authors and do not necessarily represent those of the IMF or IMF policy.

14. The aim of the paper was to determine the correct treatment of the mobile phone licence payments under the current 1993 SNA. However, the current text of the SNA does not have any specific guidance on these payments. Therefore, their treatment needed to be decided on general principles and by analogy with other cases. The paper also aims at clarifying the SNA text and providing some guidance, criteria and indicators for handling the border cases.

15. The first issue discussed in the paper is the nature of the licences. They are defined as giving exclusive rights to provide mobile phone services or otherwise use specified parts of the electromagnetic spectrum. They are allocated by an auction, issued for an up-front payment, pre-agreed instalments, a share of future revenue or for free. They may, or may not, be: cancellable by the government; transferable; given for a fixed period. As some of the licences have been auctioned for substantial sums, rules need to be developed on how to treat them in the national accounts.

16. The paper concludes that there are usually two assets involved with mobile phone licences, namely the spectrum, which is owned by the government, and the licence, which is an intangible non-produced asset sold by the government to the licence-holder. The values of the two assets are linked complementarily. The spectrum is a tangible non-produced asset owned by government. The sale of the licence is the sale of an asset. Alternative treatments of recording the licence payments as sale of the spectrum itself, other taxes on production, productions of a service, or rent were considered and rejected. Recording of payments depends on how the risks and benefits of ownership over the right to use the spectrum during the licence period are allocated. In this respect it was noted that in most cases the government has retained ownership of the spectrum and the term of the licence is finite (often 15-30 years).

17. The issue of treatment the licence over the remainder of its life was mentioned. The paper considers methods of amortization of the licence over its life. Under the 1993 SNA, the amortization is shown in the other changes in volume of assets account and does not affect income and saving. The paper considers the issues associated whether amortization should be taken into account in income and saving measures. However, it was noted that the issue of amortization is outside the discussion of the Expert Group meeting.

18. In conclusion it was pointed out that the treatment proposed by the IMF does not affect 1993 SNA, because treatment of the spectrum as a non-produced tangible asset is within the

definitions of the SNA as is the treatment of the licence as a non-produced intangible asset. The treatment is an application of existing principles to a new situation. The principles are also applicable to other intangible assets such as broadcasting licences, fishing rights and others. The main effects in the accounts are that treating the licences as the sale of an asset affects only net lending and borrowing and only at the time of the contract being written, while treatment as rent affects disposable income, saving, and net lending and borrowing over the life span of the contract.

#### **D. Comments on the IMF Working Paper**

19. In the United States, licences to use the radio spectrum do not automatically revert to the government at the end of the licence period; the licences can be renewed with payment of only a small administrative fee. Therefore, when in 1994 the classification of radio spectrum licences was considered, the rent treatment was rejected because a time period is inherent in the definition of rent, whereas use of the spectrum in the US is essentially permanent. The BEA believes that it correctly treats the receipts from the US radio spectrum auctions as the sale of a non-produced asset. However, it was noted that if a radio spectrum licence is for a fixed, long period of time, as is the case of the UK auction, the appropriate treatment appears less clear.

20. Mr. Brian Newson (Eurostat) member of the ISWGNA presented the written comments submitted by ABS (Australia), Statistics Canada, (INSEE) France and (INE) Spain.

21. The Australian Bureau of Statistics (ABS) agrees with the conclusions of the IMF paper. The licences recently issued in Australia satisfy the SNA definition of intangible non-produced assets. They are issued for a 20 year period and are fully transferable. There is no restriction of their use. The ABS has also noted the conclusion in the IMF paper that payments received for some shorter-term, non-transferable uses of spectrum may be classified as rent. However, the ABS has no firm view on whether the boundary should be drawn at one year or at five year (as decided by Eurostat) licences.

22. The ABS is concerned about the alternative treatment of amortization/reappearance of assets as suggested in the IMF paper. In this respect, it would support a review of the 1993 SNA asset –liability boundary and treatment of rights and obligations conveyed by various contractual and licensing arrangements. However, it was stressed that a possible review should not dissuade the ISWGNA from determining the appropriate treatment of mobile phone licences based on the current content of the SNA.

23. Statistics Canada noted in the comments submitted to the Expert Group meeting, that IMF paper was quite thorough and had argued several alternatives. The first preference is for the rent treatment as it is quite easy to explain to the users in Canada. As a second best preference, Statistics Canada supports the IMF alternative treatment which incorporates amortization in the income account and changes all the sequence of accounts accordingly. Canada also supports the Eurostat proposal, mentioned in IMF paper, that five year criterion



is used rather than one year to delineate sales of assets from rent. This is considered a good practical amendment.

24. In its comments, INSEE (France) supports the recording of mobile phone licences as the sale of an asset and not the rent treatment, which requires imputations of rent flows. However, it does not agree with recording the sale as a transaction of an intangible non-produced asset as proposed in the IMF paper. France would prefer to record it as the sale of the electromagnetic spectrum frequencies for the length of the contract. Participants were informed that a paper on this issue would be written soon. INSEE is interested in the questions raised in Annex 1 of the IMF paper about reviewing the 1993 SNA Asset-Liability Boundary. However, it opposes any immediate change in the SNA as the proposals outlined in Annex 1 need further elaboration.

25. As a general rule, INE (Spain) agrees with the conclusions in the IMF paper. It also agrees that two assets are involved with mobile phone licences, namely the spectrum which is a tangible non-produced asset and the licence which is an intangible non-produced asset. In Spain, because of current restrictions on the use of the electromagnetic spectrum, only a certain number of operators can exploit it. The licence is issued for 20 years term, which can be extended for another 10 years. The licence is cancellable and under specific conditions it can be transferred to another party. The payment is known when the licence is awarded and is made at the time the licence is issued.

26. Mr. Paul McCarthy (OECD) presented the written comments submitted by Ms. Anne Harrison (OECD). The comments covered the note submitted by Robin Lynch (UK) and the IMF paper.

27. With regard to the paper written by Robin Lynch it was noted that paragraph 7.128 of 1993 SNA had been interpreted larger than intended. It was noted that the main objective of this paragraph is that if the rent is paid in one lump sum for a twelve month period, in principle it should be allocated on an accrual basis to the relevant twelve months. It was also noted that the paper does not enter sufficiently into the consequences of the pre-payment aspect of the UK proposal.

28. Concerning the IMF paper, the comments were directed at Section IV: Amortization of the value of the licences and reappearance of the value of the spectrum and the accompanying tables. In view of the author of the comments, the tables are incomplete because they do not show in the balance sheets the accounts receivable and payable, which are shown in the financial account under the rent option. Another comment concerns the flow accounts and whether they are fully worked through in the IMF examples. However, the IMF paper was commended for opening the possibility of treating the cost of using non-produced capital as a charge on income.

*Comments by the representatives of Italy and the Netherlands*

29. The representative of ISTAT informed the meeting that in Italy the spectrum is not considered an asset, as it does not exist in nature. In fact, the government gives the right to an operator to function in a certain field: the radio waves are produced by the operator. The licences are issued to allow the operator to install and manage a mobile telephone system in the country. In his view the 'permission' to use the field or the air represents the 'asset'. The air is not an economic asset as recognised by the 1993 SNA. The situation is similar to radio and TV broadcasting.

30. With regard to the licence it was suggested that to be treated as a 'sale' or 'purchase' of an intangible asset. It was also noted that the payment of taxes by the operator should be considered.

31. The representative of CBS (Netherlands) informed the meeting that Netherlands agrees with the conclusions of the IMF paper. He commended the paper as a very useful tool. In the Netherlands, the licence is treated as a sale of an asset.

32. After the various presentations, the Chairman of the meeting summarised the main points which were raised for discussion, namely:

- Nature of the spectrum: assets or not;
- What decides ownership: what criteria are used and how to deal with them?
- Parallels between contracts in using land and spectrum;
- Value of the spectrum or value of the contract;
- How does the length of time affects the issue of mobile phone licences?
- The impact on net worth of the society;
- Timing of the payment: does it matter whether the payment is made up-front or for more than a year?

33. In the ensuing discussion several participants pointed out that the spectrum is an asset. It was also noted that if there is not an underlying asset, then it is a payment of tax.

34. Cancellability was mentioned as one criterion for defining the ownership over the contract. It was noted that in the case of United Kingdom, the licence contract includes a clause that government can appropriate or cancel the contract in case of national emergency. However, it was pointed out that cancellability does not affect the ownership if the risks and benefits are shifted to the licence-holder. Another indicator that could be used is the length of the contract. The example of renting a piece of land for 90 years was mentioned. In this respect it was argued that the longer the contact, the easier it is to treat it as a transfer of ownership. In conclusion it was noted that there is a range of criteria which can be used to define ownership.

35. Parallels between contracts in using land and spectrum were discussed at some length. It was noted that many countries treat the land lease as an asset. There was a general agreement that there are clear parallels between the treatment of contracts in using land and spectrum. However, despite the similarities different countries treat them differently.

36. Participants also discussed the issue whether the value stays with the spectrum or with the contract. It was concluded that the actual situation is that the value of the licence is established at the time of its sale, for example by way of auction. The value of the licence declines over time.

37. The relevance of length of the licence was also discussed. Some participants felt that the criterion of one year, which is used in the position of the ISWGNA to delineate sales of assets from rent is too short. An example was given with sub-soil assets, which are used under long-term leases. Other participants noted that there is a big difference between the treatment of licences and sub-soil assets because the sub-soil assets are exhaustible. For example the petrol is extracted and sold out. The situation is not the same with the mobile phone licences .

38. As regards the impact on 'net worth' of the society, there was a general agreement that when the spectrum is recognised as an asset, this changes the 'net worth' of the society. The same is valid for land. It was noted that enterprises recognise the spectrum as an asset in their business accounts. It was also pointed out that establishing property rights on something has an impact on the 'net worth' of the society. In this respect it was mentioned that the issue is discussed in para. 7 and 9 of the ISWGNA report on the June 2000 meeting.

#### **IV. SOME CONCLUSIONS AGREED ON AT THE MEETING**

39. Concluding the discussion it was stressed that a number of very interesting presentations concerning the treatment of mobile phone licences in the national accounts were made. It was noted that the discussion did not lead to unanimous agreement although on several occasions some agreement had emerged.

40. It was pointed out that the meeting had gone beyond the previous discussions by treating issues, such as 'ownership', 'value' and 'length of contract.' It was also mentioned that the deliberations were more focused than in the previous meetings.

41. Most participants maintain the view that the spectrum is an asset itself. However, still the main issue of discussion was whether the licence should be treated as a sale or as a rent.

42. The meeting discussed a number of criteria to define the ownership. Participants agreed that a whole range of criteria has to be looked at.

43. Concerning the issue whether the value stays with the contract or with the asset no common agreement was achieved.

44. Participants agreed that it is necessary to look at the behaviour of the society when considering the length of contract. They also agreed that when the spectrum is classified as an asset this has an impact on the net worth of the society.

45. There was a general agreement that timing of the payment is not that important but rather the nature of the payment and to whom it refers.

46. Finally, it was stressed that the discussion brought important clarification on the issue of the treatment of mobile phone licences which will help the ISWGNA to decide about its report to the UN Statistical Commission. The number of agreements between various views has increased as compared to the meetings held in June and September 2000. It was also noted that the meeting in Washington made valuable contributions to getting to a position on the treatment of mobile phone licences in national accounts.

## **ANNEX 5:**

### **TREATMENT OF MOBILE PHONE LICENCES IN THE NATIONAL ACCOUNTS REPORT OF THE ISWGNA**

**18-APRIL 2001**

#### **A. Background**

1. The objective of this note is to explain, in some detail, the decision of the Inter-secretariat Working Group on National Accounts (ISWGNA) concerning the treatment of the receipts from the sales of mobile phone licences in national accounts. This note is a revised version of the report drafted by the ISWGNA following a special meeting in Washington, D.C. in June 2000 and discussed at the Eurostat National Accounts Working Party meeting in June 2000 and at the OECD National Accounts Experts meeting in September 2000. The initial report formed also the basis for Eurostat's decision<sup>1</sup> regarding the treatment of mobile phone licences.
2. The revised report presented here reflects additional deliberations of the ISWGNA with experts from OECD Member countries that took place on April 5, 2001 in Washington D.C. and some of the points made in a recent paper by Dippelsman and Maehle (2001)<sup>2</sup>. These discussions were fruitful in further focussing the issue, and in defining the work ahead. Overall, however, the ISWGNA concluded that there was no need to change the conclusions of last June's meeting since no new issues had emerged since then.

#### **B. The issue: sale of an asset or agreement on rent?**

3. In essence, two options of treating the payments for the mobile phone licences have been the subject of debate: (a) treatment of the transaction as rent for the use of an asset or (b) treatment as the purchase of an asset by the corporate sector from general government. The main implication of treating the payments as rent is that they become a component of income and consequently affect income and saving balancing items whereas the treatment as sale of an asset affects only the other changes in volume of assets account. Net lending/borrowing items for government and the corporate sector are also affected differently under the two options.

#### **C. Conclusion 1: the spectrum is a tangible, non-produced asset**

4. 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." (SNA 93, paragraph 10.2). There is a broad consensus that the

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1. Eurostat Decision on the Allocation of Mobile Phone Licenses (UTMTS); *Eurostat News Release* July 14, 2000.

2. Dippelsman, Robert J. and Nils Ø Maehle (2001); "Treatment of Mobile Phone Licences in the National Accounts"; *IMF Working Paper*, February.

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.

5. Further, the spectrum meets the criteria for a tangible non-produced asset (“[...] occurs in nature” (SNA 93, paragraph 13.53)). The characterisation as a tangible, non-produced asset puts the spectrum on a par with land or subsoil assets. The spectrum is recognised as an asset at the time its economic value is established.

#### **D. Conclusion 2: the licence is an intangible, non-produced asset**

6. A licence authorises the licensee to the exclusive use of a certain part of the spectrum. This constitutes a property right for the licensee, created by government by virtue of its regulatory powers. The ISWGNA considers that the mobile phone licence constitutes a separate asset from the spectrum itself: the rights conveyed by the licence fit the definition of an asset as stated in paragraph 4 above. Further, the license is an intangible non-produced asset because it meets the definition in the SNA 93 (Annex to Chapter 13, AN.22): there, intangible, non-produced assets are described as “constructs of society”, “[...] evidenced by legal or accounting actions”, that “[...] entitle their owners to engage in certain specific activities and to exclude other institutional units from doing so [...]”.
7. At its meeting in March 2001, the United Nations Statistical Commission (UNSC) encouraged the ISWGNA “...to review the treatment of intangible assets”. As part of such a review, the ISWGNA felt it might be considered appropriate 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).

#### **E. Conclusion 3: licence payments are neither taxes nor purchases of the spectrum itself**

8. In several countries, the government sells the mobile phone licences to the corporate sector. Such payments for licences do not, in general, constitute taxes: taxes are compulsory, unrequited payments and although some types of licence payments are recognised as taxes in the SNA 93, the payments for mobile phone licences are neither compulsory nor unrequited. Also, unless licences are granted for an unlimited amount of time, the ownership over the spectrum remains with the government so that the sale of the licence cannot be considered the sale of the spectrum itself.

#### **F. Conclusion 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**

9. As the spectrum is classified as a tangible, non-produced asset, payments for its use should be treated in parallel to payments for the use of other tangible, non-produced assets in particular land. One notes that the SNA 93 does not stipulate that *all* land leases be treated as rent: some land leases are current in nature while others are capital. Current leases of land give rise to property income in the form of rent as mentioned in paragraphs 7.88, 7.128-131 and 10.129 of the SNA 93. Capital leases are independent assets for the leaseholder and are mentioned in paragraphs 10.129-130 and 13.62 of the SNA 93.

10. Both types of leases have in common the permission to use land owned by another entity but the SNA 93 provides very limited discussion of the borderline between putting the land at the disposal of another unit and transferring ownership over the right to use land. From the examples given in the SNA, it is clear that transferable leases are assets while short-term leases are usually current transactions, giving rise to a treatment as rent payments. But many intermediate cases remain and more general principles have to be evoked. In particular, the SNA's definition of economic assets (paragraph 10.2) requires the presence of enforceable ownership rights. Thus, when a lease involves transmitting ownership over the right to use the land from the landowner to the licensee, such a transaction qualifies as the sale of an asset. If rights to use land are only partly or not all transferred, payments under a lease would qualify as rent. The same rationale is also applied to the discussion of mobile phone licences in the following paragraphs.

**G. Conclusion 5: there is no single, universal and clear-cut criterion to distinguish between rent and asset sale – a range of criteria need considering**

11. Despite a number of indications in the SNA 93, there is no single, easy-to-use criterion that permits in all cases classifying transactions as either sale of an asset or rent. Conceptually, the issue can be narrowed down to answering the question whether or not ownership over an asset (the licence) has in effect been transferred to the licensee. Though useful, this conceptual criterion does not yet give rise to an operational one and a number of aspects have to be examined.
12. Decisions are straightforward for polar cases such as licences granted indefinitely (this amounts to the sale of the spectrum and clearly constitutes a transaction in assets) or licences granted for less than one year (this excludes generation and sale of an asset in accordance with the SNA's "one-year rule"; the SNA mentions a year as a minimum holding period for produced assets and the ISWGNA feels it is reasonable to assume that one year should be the lower holding time in defining all non-financial assets). Many intermediate situations exist, however, that cannot easily be classified as either sale of an asset or rent simply by considering the length of the time period involved. Whether or not ownership rights are transferred from the government to the licensee (sale of an asset) or not (rent) can only be determined by regarding a range of different criteria. One notes that, taken individually, none of these criteria may be sufficient to unambiguously characterise a transaction. Hence, the approach chosen here is one of obtaining an overall picture and then passing a judgement whether *on the whole*, the set of indicators points to a treatment as an asset or a treatment as rent.

**H. Conclusion 6: most criteria examined point to licence payments as purchase of an asset, not rent**

13. The following paragraphs consider several indicators. On balance, they point to a treatment of the sale of mobile phone licences as the sale of an asset rather than as a rental agreement.
- **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 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 licenses, the total amount payable has typically 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 license-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 licenses) 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 sufficient 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. This situation hardly applies to mobile phone licences.
- ***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 which are not consistent with the national accounts. But the treatment of the acquisition of mobile phone licenses as capital investment in company accounts provides an added incentive to treat them in a similar way in the national accounts.

## **I. Conclusion 7: value of licence and value of spectrum move symmetrically**

14. Under the treatment as an asset, the ***value of the licence*** is established at the time of its sale, for example by way of auction. Over time, with the expiry date moving closer, the value of the licence declines. The means of writing off the cost of a licence over the course of its life was discussed at some length by the ISGWNA. 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 in asset 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, assuming no technical change that would make its future use



obsolete. The 1993 SNA recognises such reappearance of economic value and records it in the other changes in 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.

15. The ISWGNA considered two alternatives to record the annual write-offs in the accounts, namely, (a) in a way similar to the consumption of fixed capital, and (b) 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 over a period of time.
  - 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.
16. Therefore the ISWGNA 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.
17. The *value of the spectrum* corresponds to the discounted stream of future revenues that the government can achieve from selling rights to use the spectrum: However, before the first payment for mobile phone licences occurs, it is difficult to place a reasonable value upon the spectrum. Once rights to use the spectrum are sold (e.g. by way of an auction), an initial value can be established for the spectrum. At that moment, any value over and above the licence consists only of the discounted value of licence payments following the expiry of the current licence. As the years go by, the licence declines in value while the value of the government's spectrum asset increases by the same amount. After the licence expires the spectrum returns to full value and government can re-offer use of the spectrum for another generation of licences. The new full value of the spectrum is not necessarily identical to the original full value of the spectrum: inflation or changes in the expected revenues from licence sales may account for such differences.

#### **J. Conclusion 7: further elaboration of criteria will be useful for the future**

18. Despite a strong case for the treatment of the sale of a mobile phone licence as the sale of an asset, the ISWGNA found that there was a need for more broad-based work on the treatment of all intangible assets, in line with the request by the UNSC. Such work could, for example, elaborate a 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 be limited to the question of mobile phone licences.

## K. Summary

19. Taking into account the discussions at its special meeting in June 2000, at the Eurostat National Accounts Working Party, at the OECD National Accounts Experts meeting and at the September 2000 and April 2001 meetings of the ISWGNA, the ISWGNA came to the following conclusions regarding the treatment of the government receipts for mobile licences:

- The spectrum and the licence constitute two distinct non-produced assets – a tangible non-produced asset (the spectrum) and an intangible non-produced asset (the licence).
- The sale of a mobile phone licence constitutes the sale of an asset, not payment for rent when the licensee acquires ownership rights over the use of the spectrum. Examination of current practices of sales of phone licences in OECD countries against several indicators all point to the acquisition of full ownership rights over the use of the spectrum by the licence holder. (It should be noted that the sale of the right to use the spectrum for an unlimited time (as is the case in the United States) constitutes the sale of the spectrum itself rather than the sale of an intangible non-produced asset (i.e., the license).)
- The value of the intangible asset is established at the time of its sale. It declines with the expiration of the period of validity to fall to a value of zero at the point of the expiry of the licence. Symmetrically, the value of the spectrum falls when the licence acquires a value and is progressively re-established as the value of the licence falls. This is consistent with a potential further sale of the right to use the spectrum for another period. This procedure also ensures a neutral effect on the overall economy for variables such as consumption of fixed capital, saving etc.
- The treatment of mobile phone licenses proposed here is consistent with the treatment of intangible non-produced assets as laid out in the 1993 SNA and the ISWGNA considers that at present there is no need for modification of the SNA.

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3 . Eurostat Decision on the Allocation of Mobile Phone Licenses (UTMTS); *Eurostat News Release* July 14, 2000.

4. Dippelsman, Robert J. and Nils Ø Maehle (2001); “Treatment of Mobile Phone Licences in the National Accounts”; *IMF Working Paper*, February.