

Updating of the SNA-93 issue 21b: leases and licences

Advisory Expert Group's (AEG) recommendations of 04/2006:

Altogether there have been 18 questions to be considered by the AEG in February 2006.

a, b: Concerning the clarification of the distinction between operating and financial leases the AEG asked for more elaboration including the criteria for economic ownership, but there has been a broad agreement on the distinction between operating and financial leases as depending primarily on whether the lessor or lessee has responsibility for the maintenance of the leased asset and a production activity in which it was used.

c, d: Concerning the clarification of the recording of financial leases the AEG agreed in principle that the breakdown between repayment of principal and interest is estimated in a manner similar to determining depreciation and net operating surplus/return to capital in the case of a fixed asset (I) and that a financial service may be provided by the lessor if the lessor is a financial institution (II), but asked for more elaboration related to the recording of the repayment.

Concerning the treatment of operating leases, especially those where the lessee might have the right to transfer the lease the AEG agreed that:

e: the payment due under a lease agreement represents the market price even if a newly leased identical asset would command a different price,

f: there may be an asset attributable to the lessee but it should be only be recognised if the asset can actually or potentially be transferred and that

g: that that asset is only relevant in the case of operational leases,

h: the leased asset should always be recorded by the lessor at the encumbered value,

i: if the encumbered value is less than the unencumbered value and only if it can be actually or potentially transferred, the lessee would have an asset, valued at the difference between the unencumbered and encumbered values, to be included in the heading "contracts, leases and licences".

Concerning prepayments in relation to leases the AEG agreed

j: treating them as a payment for a service or the acquisition of an asset depending on the nature of the agreement, and

k: to treat an asset as contribution in lieu of a financial payment in a similar way to the treatment of wages in kind (to impute a financial transaction and acquisition of an asset)

Concerning the use of natural resources authorised by permits the AEG agreed

l: to the introduction of a resource lease as a third kind of lease, but

m, n: deferred the questions related to the use of environmental assets until the paper on government permits was discussed.

o: Concerning the permits not issued by government the AEG agreed that when there is an underlying asset, payments should be property income; when there is no underlying asset, payments should be recorded as a payment for a service

Concerning the provision of goods in the future, for example options to purchase aircraft or the provision of services in the future by nominated persons, for example, footballers' contracts:

p: The AEG agreed there is an asset if there is a demonstrated value but the type of asset needs to be further clarified, and

q: that such contracts should be treated as non-produced, nonfinancial assets.

r: The AEG agreed further that there should be a generic advice about the treatment of contracts, leases and licences

s, t, u, v, w, x: The AEG asked for an example showing all the recording implications in order to consider the recommendation from the Canberra II Group

German opinion:

General remark: The initial 5 question for revision under this topic proliferate to 18 questions set out for the AEG's consideration in February 2006. Some of the recommendations show in our opinion no change to the SNA 1993, others ask for more clarification or coordination with related issues not yet closed. Considering that dynamic of the discussions here we suggest to review the recommendations and to accept only the ones according to the fundamental principles for this revision of the SNA. In particular we reject any recommendations potentially shifting the boarder between the production and property income. We advocate staying with the SNA 1993 (including the asset classification), not changing anything, only clarifying where there is need for clarifying. The revision work has to focus rather on all consequences in the system than in creating a new terminology and totally new approaches Further for accepting a recommendation it is necessary a previous elaboration of the consequences of that recommendations in the whole system of NA in terms of a comparison SNA 1993 to the proposed new regulation .

a, b: We reject the maintenance as distinction criterion between operating and financial leases and suggest a distinction upon the accounting rules (Financial Leasing if recorded by the lessee and Operating Leasing if recorded by the lessor). Recommendations including criteria for economic ownership would have in impact also on the issue 30 Definition of economic assets.

c: We prefer giving a vote to the recording of financial leasing only after having the elaborated details asked by the AEG

d: We agree to the recommendation concerning the ability of a lessor as financial institution to provide a financial service to the lessee. However, „Financial Leasing“ in terms of the SNA93 does not exist in Germany as the FSO has stated several times. This is due to the fact that contracts which meet the criteria of SNA-Financial Leasing will be interpreted as credit buying by our tax authorities.

e,f,g,h,i: Concerning the treatment of operating leases, especially those where the lessee might have the right to transfer the lease we wonder if the AEG recommendations imply many changes of the SNA 1993 because parts of them seem to stipulate only the same recordings as in the SNA 1993. For instance the recording of a nonproduced immaterial asset of the lessee if (and only if) he is able to transfer the contract is according to the SNA 1993. According to the fundamental principals for the revision of the SNA 1993 we suggest staying with the SNA 1993 solutions and considering changes only regarding the initial 5 revision points of the issue 21. That implies also not changing the asset classification (because upon the new proposed asset classification there isn't a category "non produces immaterial assets" any more, so that all SNA paragraphs relating to such assets have to be revise also).

These discussions are a good example for the proliferation of the initial considered points of revision. For the proposed new asset classification without explicitly category for immaterial assets there is a need to review all that SNA paragraphs that introduces the immaterial goods in the SNA 1993.

j, k: Considering the AEG recommendations concerning prepayments in relation to leases and the treatment of financial contributions in form of assets we ask for clarification if there is any change to the SNA 1993.

l: Concerning the recommendations related to the use of natural resources authorised by permits we want to point at the fact that this questions haven't been included in the list of the revision points, but only the question if the tradable government permits should be treated as assets. In our opinion the AEG recommendation to introduce resource lease as a third kind of lease would shift the production boundary of the SNA 1993, which hasn't been envisaged at present.

m,n: Further questions submitted to AEG as the treatment of fishing quotas do only replay the treatment in the SNA 1993 (as nonproduced immaterial goods) avoiding the terminology of the SNA 1993 (because of the proposed changes in the asset classification). There is no need for such "changes" of the SNA if we keep the category of nonproduced immaterial goods (and the related paragraphs) of the SNA 1993.

o: Concerning the permits not issued by government we prefer staying with the recordings upon the SNA 1993 and we ask for what really changed through the new recommendations.

p, q: Concerning the provision of goods in the future we agree with the AEG recommendation and at the same time want to point out, that this is another topic where the AEG recommendation enforce only the SNA 1993 not

implying any change in the recordings of the National Accounts: Aircraft options are in our opinion already in the SNA 1993 financial derivative and Footballers' contracts are nonproduced immaterial goods. The only difference to the now discussed treatment is the fact that upon the new proposed asset classification there is no category "nonproduced immaterial goods" any more, and for this there is a need to stipulate the footballers' contract as "contracts, leases and licences".

r: We agree that there should be a generic advice. In our opinion that advice should recommend staying with the SNA 1993 (including the asset classification), not changing anything, only clarifying where there is need for clarifying. The revision work has to focus rather on all consequences in the system than in creating a new terminology and totally new approaches (s. also General Remark).

s,t,u,v,w,x: We support the basic necessity for the required examples for all changes to the current recordings