

SNA News

Number 14
April 2002

An information service
of the Inter-Secretariat Working
Group on National Accounts
(ISWGNA)

UN STATISTICAL COMMISSION OFFICIALLY ADOPTS UPDATE OF THE 1993 SNA REGARDING THE TREATMENT OF MOBILE PHONE LICENSES

By Cristina Hannig, UNSD

(ISWGNA Official Position)

After a long process of consultation by the ISWGNA in 2000 and the mandate of the UN Statistical Commission in March 2001 to make a decision as quickly as possible on the treatment of mobile phone licenses, the ISWGNA set out in its report of 18 April 2001 the recommended interpretation. In accordance with the 1993 SNA update procedures adopted by the UN Statistical Commission (see SNA News & Notes No. 9), in the summer of 2001 the ISWGNA report of 18 April 2001 was circulated to all members of the Commission for its views and comments. Three member countries raised objections to the proposed treatment. Consequently, the ISWGNA carefully analyzed and discussed these comments at a teleconference held on 14 December 2001. As a result of these deliberations, the ISWGNA agreed to some minor changes to the main text of its April 2001 report recognizing more explicitly the cases in which its strong recommendation to treat mobile phone agreements as sale of an

asset may not hold. It was also decided to add an annex illustrating the circumstances under which mobile phone licenses could be treated as rent. These changes were reflected in a slightly modified ISWGNA report of 21 December. In view of this, the three member countries agreed to adopt a consensual approach on this interpretation of the 1993 SNA, as an interim recommendation, so that the world community could move forward on this issue in anticipation of a comprehensive review of the treatment of all intangible assets as planned.

In a letter dated 29 January 2002 to all 24 members of the Commission, the Director of UNSD, Mr. Hermann Habermann announced the official adoption of the ISWGNA interpretation of the treatment of mobile phone licenses as set out in the ISWGNA report of 21 December 2001. (See www.un.org/Depts/unsd/nataacts/iswgna.htm)

ISWGNA FINAL RECOMMENDATIONS ON MOBILE PHONE PAYMENTS

By Francois Lequiller, OECD

(For information)

The main conclusion of the ISWGNA on the treatment of mobile phone licenses is that transactions on mobile phone licenses should be examined through a set of six criteria

regarding the characteristics of the transaction and classified accordingly, either as the sale of an asset or as rent. This decision is consistent with Eurostat's decision of July 2000.

The six criteria (extracts)

- **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.
- **Up-front payment or installment:** as with other indicators, the mode of payment is in itself not conclusive for a characterization as asset or rent payment. Generally, the means of paying for a license 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 license:** licenses granted for long periods suggest a treatment as the sale of an asset, for shorter periods a treatment as payments for rent.
- **Actual or de-facto transferability:** the possibility to sell the license is a strong indication of ownership and if transferability exists, this is considered a strong condition to characterize the licensing act as the sale of an intangible asset.
- **Cancellation possibility:** the stronger the restrictions on the issuer's capacity to cancel the license at his/her discretion, the stronger the case for treatment as a sale of an asset.
- **Conception in the business world and international accounting standards:** businesses, in accordance with international accounting standards, often treat a license to use the spectrum as an asset. Again, in itself this does not lead to treatment as an asset in the national accounts, and there are other areas where companies choose to present figures in their accounts in ways that are not consistent with the national accounts. But the treatment of the acquisition of mobile phone licenses as capital investment in company accounts provides an added incentive to treat them in a similar way in the national accounts.

More work on intangibles/produced/non produced assets

Further to this recommendation, the ISWGNA found that there was the need for more broad-based work on the treatment of all intangible assets. One of the points that should be discussed is the recommended method of implementation of the decision (creation of a non-produced license asset). Full investigation should be made on the consequence of the introduction of the above set of criteria on the SNA. In addition, work should be conducted to elaborate a broader set of criteria to aid making decisions between the treatment of payments for leases or licenses as rent or as sale of an intangible asset. These criteria should be applicable to a broad range of transactions, and not limited to the question of mobile phone licenses.

PUBLICATION OF THE HANDBOOK ON NON-PROFIT INSTITUTIONS IN THE SYSTEM OF NATIONAL ACCOUNTS

By Cristina Hannig and Viet Vu, UNSD

(For information)

(This announcement reproduces the text that was submitted to the United Nations Statistical Commission in March 2002, in document E/CN.3/2002/8/Add.1. The Commission welcomed the publication of the Handbook and endorsed the proposed plan for its implementation.)

The handbook on non-profit institutions in the System of National Accounts (SNA) has been prepared in close collaboration between the Johns Hopkins University Center for Civil Society Studies and the United Nations Statistics Division. The draft handbook was reviewed by a United Nations expert group meeting of SNA experts, which was held in New York from 10 to 12 July 2001. The revised draft was later cleared by the Inter-secretariat Working Group on National Accounts. It is now being prepared for publication by the United Nations Statistics Division as part of its series of handbooks on national accounts to assist countries in their compilation of national accounts. The handbook is already available in draft format at the Division's web site on national accounts.

In its central framework of accounts, the SNA classifies the non-profit institutions (NPIs) in four institutional sectors:

- The non-financial sector;
- The financial sector;
- The general government sector;
- The non-profit institutions serving households sector (NPISHs).

In national accounts practices that are common in many countries, the NPISHs sector is often aggregated to the household sector and as a result data on non-profit institutions are rarely

singled out for collection or analysis. In response to the growing importance of NPIs in every country, particularly with respect to health, education and social services, the handbook has been prepared to serve the following two purposes:

- To transfer other non-profit activities that are now included as part of the financial corporations sector, the non-financial corporations sector and the general government sector by the SNA in order to group them into an NPI satellite account. The new NPI account includes the NPIs serving households (NPISHs) and the NPIs serving the interests of those sectors. This reclassification of the SNA to form a single NPI for study is an attempt to respond to the analytical needs of policy makers who are searching for ways to improve public services and reduce the size of government. In addition, this elaboration will help improve the effort to provide and collect more comprehensive data on NPIs. The NPI satellite account only reclassifies the institutional units of the economy; the scope of the economy's constituent units remains the same.
- To extend the NPI satellite accounts to incorporate the following important changes:
 - Imputation of values to volunteer labour, which is a common and important feature of NPI activities but for which the SNA makes no allowance;
 - Imputation of non-market output provided by market NPIs by operating expenses. This imputation is designed to take account of non-market activities provided free to users by market NPIs, such as educational and health institutions.

ESTABLISHING AN ELECTRONIC DISCUSSION GROUP TO DETERMINE THE TREATMENT OF NON-PERFORMING LOANS IN MACROECONOMIC STATISTICS

By Russel Freeman, IMF

(For Information)

At the October 2001 meeting of the Inter-secretariat Working Group on National Accounts (ISWGNA), it was proposed that an Electronic Discussion Group (EDG) be set up to work forward an acceptable treatment for non-performing loans in macroeconomic statistics. The IMF is now establishing this EDG, and experts who are willing to take an active part in the discussions are invited to indicate their interest by e-mail to RFreeman@IMF.org

The serious financial crises that affected several countries since the mid 1990s have led to renewed interest in the question of how macroeconomic statistics should account for non-performing loans.¹ The original criteria used in the *System of National Accounts 1993 (1993 SNA)* for the treatment of loans were based on important considerations such as the desirability of avoiding entries in the accounts for which there are no sound basis in observable transactions, the need for accounting practices to facilitate comparisons between different economic agents and countries, the need for valuation of loans to be consistent with the debtor's legal obligations, and the need for recommendations to be useful in measures of solvency. However, such criteria have resulted in many cases where the national accounts do not reflect the existence of non-performing loans in either the flow accounts or balance sheets.

The purpose of the EDG is to determine if additional criteria should be applied to the treatment of non-performing loans and to make sure that they are consistent with the other major macroeconomic statistical systems (balance of payments, government finance, and money and banking statistics). Such a

treatment needs to consider all aspects, such as the definition and valuation of loans in general and non-performing loans in particular, loans as assets and liabilities, when such loans should be written off, and how interest accruing and arrears should be measured. The conclusion of the group will be documented in a report that will be circulated for consideration by bodies such as the ISWGNA and the IMF Balance of Payments Statistics Committee.

The EDG will begin in April 2002 by contacting potential members in countries with a particular interest in the topic of non-performing loans and seeking opinions from the general public via the IMF website. The IMF, as coordinator of the EDG, plans to complete an initial draft report by the end of September 2002—circulated to members and posted on the website for further discussion—with the aim completing a final document by February 2003. As a starting point for the discussion, two papers have been prepared, one by the IMF² and the other by Statistics Canada,³ which will shortly be posted on the IMF website.

¹Also dubbed impaired, nonaccrual, or bad loans.

²The Treatment of Non-performing Loans in Macroeconomic Statistics. IMF Working Paper number 209, by Adriaan M. Bloem and Cornelis N. Gorter.

³Treatment of Allowances for Loan Losses and Non-performing Loans. A note for the Fourteenth Meeting of the IMF Committee on Balance of Payments Statistics. Tokyo, Japan, October 24–26, 2001. Art Ridgeway, Balance of Payments Division. Statistics Canada.

TREATMENT OF EMPLOYEE STOCK OPTIONS

By John Verrinder, Eurostat

(For information)

Employee stock options are an increasingly common tool used by companies to motivate their employees. Stock options offer the opportunity for employees to purchase company shares at a set price (the "strike price") at some point in the future. Should the company share price rise above the strike price, the employees can buy shares and then re-sell them at a profit. There is also an active market in some employee stock options.

There is no specific guidance on employee stock options in either the 1993 SNA or ESA95. Following a discussion at the OECD National Accounts experts meeting in September 2000, the European National Accounts Working Group (NAWG) has been considering the matter. It quickly became apparent that stock options are more important in some countries (for example Finland) than in others, that the business accounting and taxation treatment of stock options varies considerably between countries, and that most countries appeared to be including at least part of stock options in the national accounts simply as a consequence of their use of basic data sources (for example when using taxation data).

The NAWG reached a broad consensus that employee stock options should be considered as compensation of employees, and therefore as a cost to companies. On the question of timing of recording, most European countries felt that stock options should be recorded at "vesting date" (that is the date at which the employee has met all of the conditions for exercising the options) or when they become tradable if this is earlier. European financial accounts experts agreed that employee stock options should be recorded as financial derivatives in the financial accounts at the time of vesting. After the vesting date, any changes in the value of the stock options should then be recorded as holding gains or losses for households.

On the question of valuation, the difficulty of the proliferation of different types of options

becomes apparent. Some options can be freely traded, and it would seem sensible to use the prevailing market price in this case. Other options cannot be freely traded and therefore there is a choice between valuing the options at the difference between the prevailing market price of the shares and the strike price, and using an option pricing model.

Despite the strong convergence of opinion, NAWG members felt that more time should be devoted to examining the practical problems of measuring stock options. In particular, countries are dependent upon taxation and business accounting data, which generally do not treat stock options in the way national accounts would record them. New sources of data might therefore have to be found. There are also concerns about the potential volatility of issuing and valuation of stock options, and the need to inform users of the existing treatment in the accounts. Eurostat has therefore asked countries to undertake a research programme, with a view to collecting experiences in September 2002.

The business accounting community is grappling with the same questions as national accountants. The International Accounting Standards Board (IASB) is expected to come forward with further proposals for the treatment of stock options in the autumn of 2002. Reactions to a recent consultation paper issued by the IASB have been mixed, with businesses in particular hostile to the idea that stock options should represent a cost to them in their accounts.

Following further discussion of stock options at the OECD experts meeting in October 2001, the OECD researched the treatment of stock options in the United States, Canada, Australia, Korea and Japan. The first four of these countries agree with the recording of stock options as compensation of employees, though there are differing views on the timing of recording. All countries have practical difficulties with data sources.

Editorial Note

SNA News and Notes is a bi-annual information service of the ISWGNA prepared by United Nations Statistics Division (UNSD). It does not necessarily express the official position of any of the members of the ISWGNA (European Union, IMF, OECD, United Nations and World Bank)

SNA News and Notes is published in four languages (English, French, Russian and Spanish) and can be accessed on the internet: <http://www.un.org/Depts/unsd/sna/index.htm>

The updated version of the 1993 SNA with search capability, national accounts glossary, handbooks on national accounts and activities and reports of the ISWGNA can be accessed on the internet: <http://www.un.org/Depts/unsd/nataccts>

Correspondence including requests for free subscriptions should be addressed to: UNSD, Room DC2-1520, New York, NY 10017; tel.: +1-212-963-4854, fax: +1-212-963-1374, e-mail: sna@un.org
