

Changes in the 2008 SNA impacting on the SEEA

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Changes in the 2008 SNA of relevance to the SEEA

- Leases, licences and permits
- Land improvements
- Water
- Cultivated assets
- Mineral exploration and evaluation
- Cost of ownership and terminal costs
- Capital services
- Revised classification of non-financial assets

Leases

- Three types of leases recognized in the system:
 - Operating
 - Financial
 - Resource
- The classification depends on the type of asset being leased and the distinction between economic and legal ownership

Leases

- The economic owner of the asset being leased is the institutional unit entitled to claim the benefits associated with its use in the course of an economic activity by virtue of accepting the associated risks.
- Operating lease: the lessor is the economic owner of produced asset. Lessee makes payments (i.e. rentals) for the use of the asset and associated services.

Leases

- Financial lease: lessee is the economic owner. Lessee makes payments to repay a loan and interest. The loan is for the acquisition of an asset. Generally applies to produced assets, but can also apply to non-produced assets.
- Resource lease: lessor is the economic owner of a natural resource. Lessee makes payments, recorded as property income (rent), for its use.

Contracts, leases and licences as assets

- To be recorded as assets in the system both of the following conditions must be met:
 - The terms of the contract, lease or licence specify a price for the use of an asset or provision of a service that differs from the price that would prevail in the absence of the contract, lease or licence.
 - One party to the contract must be able legally and practically to realize this difference.

Contracts, leases and licences as assets

- Marketable operating leases
- Permits to use natural resources
- Permits to undertake specific activities
- Entitlement to future goods and services

Permits to use a natural resource recognized as an asset in the SNA

- Three different treatments:
 - Effective sale of natural resource
 - Permit in perpetuity, or permit allows extinction of the natural resource
 - Acquisition of an asset separate from the natural resource
 - Permit holder assumes risks and rewards of ownership of natural resource, and
 - Permit for a limited but lengthy period, and natural resource remains intact or is fully restored
 - Natural resource remains on the balance sheet of the legal owner

Permits to use a natural resource recognized as an asset in the SNA

- Resource lease
 - Permit fails mobile phone criteria, or
 - Natural resource used up, e.g. mineral deposit
- An exception
 - Acquisition of a lease on land may be recorded as the acquisition of the land itself if it is paid for with a single up-front payment. For example, in some jurisdictions, such as the ACT, leases are for 99 years and it is expected that they will be renewed with no further payment.

Permits issued to undertake a specific activity

- The permits are limited in number and so allow the holders to earn monopoly profits
- The monopoly profits do not come from the use of an asset belonging to the permit-issuer
- A permit holder is able both legally and practically to sell the permit to a third party

Permits issued by government to undertake a specific activity

- Fees recorded as taxes
- In principle should be recorded on an accrual basis, such that payments for future years should be recorded as a prepayment by both the permit holder and government.
- BUT if government does not recognize a liability to repay the permit holder if there is a cancellation then the whole of the fee payable is recorded at the time of payment.

Permits issued by government to undertake a specific activity

- If the fee paid to government is recorded on an accruals basis then the value of the permit is equal to its market price *less* the value of the prepayment.
- If the fee paid to government is NOT recorded on an accruals basis then the permit is simply equal to its market price.

Emission permits

- Treatment depends on whether the discharge medium is an asset recognized in the SNA:
 - If yes, does the permit satisfy the radio spectrum criteria?
 - If yes, record as acquisition of an asset
 - If no, record as resource lease (payments as rent)
 - Payments for remedial action should be recorded as payments for a service
 - If no, record as payment of tax.

Tradable permits to emit into the atmosphere – AEG meeting 11/08

- Confirmed earlier view that ETS permits issued under cap-and-trade schemes should be recorded as taxes.
- Favoured treating payments for permits as pre-paid taxes with the taxes paid as emissions took place but noted this has implications for the measurement of government debt.
- Did not reach a recommendation about whether taxes and subsidies should be imputed when permits are issued without charge or at cost lower than the market price.

Tradable permits to emit into the atmosphere – AEG meeting 11/08

- Was not able to reach a recommendation about how to record changes in the value of payments during their lives.
- Was not able to reach recommendations for the treatment of other forms of emissions permits
- Agreed it would be useful to participate in a task force of interested parties (including those responsible for Government Revenue Statistics, BPM6, environmental accounting, a Eurostat task force on the subject) to discuss the question of permits further.

Land

- The value of land to be shown under *natural resources* excluding land improvements and any building structures on it.
- However, if it is not possible to separately value unimproved land and land improvements and/or structures then the aggregate should be allocated to the component of greatest value.

Land improvements

- Land improvements to be shown not only as gross fixed capital formation but as a produced asset distinct from natural land on the balance sheet. Costs of ownership transfer on land should be treated as fixed assets and included with land improvements. The total value of a plot of land is to be considered as the sum of the land improvements on the plot (if any) plus the value of the plot in its unimproved state.

Land improvements

- Distinction between land improvements and structures redefined.
 - Activities such as land clearance, land contouring, creation of wells and watering holes that are integral to the land in question and that are carried out by the landowner are to be treated as part of land improvements.
 - Activities such as the creation of sea walls, dykes, dams and major irrigation systems that are in the vicinity of the land but not integral to it, often affect land belonging to several owners and which are often carried out by government, are to be classified as structures.

The right to use/exploit non-produced resources between residents and non-residents

- When a non-resident enterprise engages in production for a year or more then the branch, site, etc. is recognized as a resident unit.
- Notional resident units are to be created when a non-resident unit:
 - Owns or has long leases on land, buildings and immovable structures in the economic territory
 - Ownership of natural resources other than land
- Extraction of sub-soil assets can only be undertaken by resident units.
- A fishing vessel becomes resident only if the operator establishes a base in the country in question, otherwise the residence of the vessel remains that of the operator, regardless of the area in which it is fishing. In principle, illegal fishing should be recorded as uncompensated seizure.

Water

- “Land” includes water over which ownership rights can be exercised:
 - Water resources below the ground
 - Associated surface water, such as reservoirs, lakes, rivers, etc.
- “Water resources” comprises surface and groundwater used for extraction to the extent that their scarcity leads to the enforcement of ownership rights, market valuation and some measure of economic control.

Cultivated assets

- SNA definition tightened as follows:
“cultivated assets cover livestock for breeding, dairy, draught, etc. and vineyards, orchards and other trees yielding repeat products ***whose natural growth and regeneration is under the direct control, responsibility and*** management of institutional units”? The words in bold italics replace the words “that are” in the 1993 SNA.

Mineral exploration and evaluation

- The produced asset “mineral exploration” is now described as “mineral exploration and evaluation” and the coverage is described using the criteria of the IASB.
- The assets for mineral exploration and evaluation and for sub-soil deposits continue to be recorded as separate assets, the first a produced asset and the second a non-produced asset.
- Mineral exploration should be valued at market prices if purchased (from specialised enterprises) or as the sum of costs (including a return to capital if undertaken by a market producer) if produced on own account.
- In the absence of a market price, the valuation of sub-soil resources should be based on the net present value of expected future receipts of resource rents. The resource rent is that part of gross operating surplus unattributable to other identified assets, specifically fixed assets including mineral exploration and evaluation.

Mineral exploration and evaluation

- Payment by the extractor to the owner of the resource should be recorded as property income (rent) regardless of the label given to the payments.
- Mining companies purchase licences and pay royalties for the right to access and extract these assets. While acknowledging that it is not wholly satisfactory, the 2008 SNA recommends that sub-soil assets should be recorded on the balance sheet of the legal owner, which is usually the government.
 - Alternative treatments of ownership were proposed as part of the 1993 SNA update process, but it was decided to retain the 1993 SNA treatment and place the issue on the research agenda.
- An extension of the concept resource rent to a depletable asset.
- Guidance on the compilation of mineral exploration and evaluation statistics as per the SNA is to be provided in the OECD's *Handbook on Deriving Capital Measures of Intellectual Property Products*

Costs of ownership transfer

- COT should continue to be treated as fixed capital formation, and be recorded when they are actually incurred.
- COT on acquisition and disposal of an asset should be written off over the period the asset is expected to be held by the purchaser rather than over the whole life of the asset.
- Terminal costs (for example dismantling costs) should be written off over the life of the asset. When this cannot be followed for lack of adequate data, the costs can be written off as CFC in the year of acquisition.
- Installation and de-installation costs should be included in COT when they are separately invoiced and in the purchaser's price of the asset otherwise.

Capital services

- Capital services for assets used in market production are implicitly included within the 1993 SNA but are not separately identified. Given the importance of identifying them for productivity measurement and other analysis, a new chapter (20) has been added, which explains the role and appearance of capital services in the system and stressing the desirability of calculating capital services, capital stock and consumption of fixed capital in an integrated and consistent manner.
- No changes made to standard entries in the accounts to show capital services but optional, supplementary items or tables can be derived and presented.

Capital services

- Capital services are provided by non-financial assets used in production: fixed capital, inventories and natural resources.
- Cost of capital services determined as the sum of:
 - Consumption of fixed capital, and a
 - Return to capital (includes expected holding gains/losses less tax benefits)

Capital services

- However, when summing costs to measure output:
 - Market producers: include only costs capital services provided by fixed assets
 - Non-market producers: include only CFC of fixed assets

Revised classification of non-financial assets

- *Non-produced assets*
 - *Natural resources*
 - *Land*
 - *Mineral and energy reserves*
 - *Non-cultivated biological resources*
 - *Water resources*
 - *Other natural resources*
 - *Radio spectra*
 - *Other*
 - *Contracts, leases and licences*
 - *Marketable operating leases*
 - *Permits to use natural resources*
 - *Permits to undertake specific activities*
 - *Entitlements to future goods and services on an exclusive basis*

Revised classification of non-financial assets

- The classification is designed to be consistent with that used in the SEEA for natural resources. The SEEA contains a further level of standard headings under each of the headings shown in the SNA. If more detail is held to be desirable in SNA tables, it is recommended that the supplementary items should follow the detail of the SEEA.
- Codes revised to support electronic data transmission.

Amortization of non-produced assets

- Despite the theoretical attractions of showing the decline in value of non-produced assets as a cost of production, as yet no satisfactory method of doing so has been agreed. As a result, the present treatment of showing the decline in the value of non-produced assets in the other changes in assets account is maintained.