



27 March 2017

Eurostat Guidance Note Amending the MGDD 2016

MOBILE PHONE LICENCES, EXPLORATION RIGHTS AND OTHER LICENCES

Executive Summary

This guidance note amends Chapter VI.1 Overview of Part VI Leases, licences and concessions of the MGDD 2016 edition.

Firstly, this guidance note clarifies the time of recording to be followed when a licence is sold ahead of availability of the licensed asset. It clarifies that the B.9 impact on government accounts upon the sale of a licence, such as a mobile phone licence, cannot precede the effective availability date of the licence.

Secondly, the guidance note adapts the MGDD more completely to ESA 2010 chapter 15 with respect to when proceeds collected by government on the sale of a licence/permit to use a non-produced asset should be recorded as rent (D.45, thus spreading the B.9 impact) or as a disposal of a non-financial asset (NP, with a one-off B.9 impact at inception).

Under ESA 2010, any proceeds on a licence to lease a non-produced asset are recorded as rent – unless the underlying asset itself is deemed to be economically sold off (disposal of non-produced asset: NP.1). Proceeds collected by government, at inception, on such sales of licences or permits are thus recorded as pre-payments, i.e. as a flow of payable for government (F.8) and of receivable for the buyer/user, and cannot be recorded as a disposal of a non-produced asset of the NP.2 type by government.

Transferability is not a criterion under ESA 2010 to decide whether to record rent or a disposal of non-financial asset, although it is a key criterion to determine whether to recognise, at inception or later on, a non-produced asset of the AN.22 type or not. This AN.22 asset appears by way of an 'other change in volume' (ESA 2010 para 6.06.g) in the accounts of the buyer. When the licence sold off is transferable, it is partitioned between two assets: a pre-payment AF.8 and an AN.22 (typically of zero value at inception if the proceeds reflect the market value of the licence, e.g. when sold at auction).

Chapter VI.1 of the MGDD 2016 edition is modified and replaced with the text appended in annex 2.

1 Background

1. Chapter VI.1 *Overview* of Part VI *Leases, licences and concessions* of the MGDD provides the rule to follow for the recording of proceeds collected by government on permits or licences to use a government asset or to conduct an activity – such as proceeds on the sale of mobile phone licences or of exploration/exploitation rights. ESA 2010 Chapter 15 *Contracts, leases and licences* (which is a new addition compared to ESA 1995) provides the framework applicable to the recording in national accounts of such agreements.
2. Mobile phone licences are licences to use the radio spectrum, which is explicitly referred to, in ESA 2010, as a non-produced government asset (AN.2151). Proceeds collected on such licences should be treated like any proceeds on licences to use non-produced assets.
3. This guidance, firstly, clarifies the time of recording to follow when the licence is sold off ahead of availability of the underlying asset to be used, for example when it allows actual availability to use the radio spectrum only with a delay. Secondly, it adapts the MGDD more completely to ESA 2010 Chapter 15 with respect to whether proceeds collected by government should be recorded – in case the licence consists in leasing a non-produced asset – as rent (a type of government revenue, to be spread over the licence life, thus spreading the B.9 impact) or as a disposal of a non-financial asset (negative expenditure, to be recorded at the beginning of the contract, with a one-off B.9 impact at inception).

2 Time of recording for licences sold off ahead of availability

4. Following cases observed in a number of countries, Eurostat clarified during 2015 and 2016 that the recording of a B.9 impact on government accounts upon the sale of a mobile phone licence could not precede the effective availability of the licenced asset.
5. Proceeds received in advance of this effective availability date must be recorded as a financial advance (F.8). Close to half of Member States had at least one such case resulting in the shifting of the B.9 impact by at least one year.
6. This rule is an application of the accrual principle, one of the fundamental basic principles of national accounts. It is also justified because it would be anomalous that government would record (net) revenue on permits that are not available yet and which may still be accruing revenue for government in the same accounting period on licences sold off in the past. When government sells permit “extensions”, the proceeds seem clearly to have a financial nature: a pre-payment.
7. When a landlord agrees to an extension of a real estate lease with a tenant (perhaps against a lump sum that may either represent a bonus or lease payments paid in advance), it seems clear that the amounts that are to be recorded as rent (D.45, if the asset is land) or as rental production (P.1, if the asset is a fixed asset) should start accruing only from after the expiration of the previous lease, and not from the time of signature of the contract. Failure to do so would lead to double counting, including double counting of GDP (when the tenant of a fixed asset lease is a final consumer).
8. At the same time, a new permit (or the extension of a previous agreement) has undoubtedly a value to the permit purchaser/tenant in so far as it locks a contract, thereby reducing uncertainty. It would thus be appropriate to record something in the balance sheet of the licence purchaser to reflect this. Indeed, this ‘value’ is recognised as an asset

(of the AN.22 class) in ESA 2010, when the licence or permit is transferable (and thus when the value is realisable). This asset has a zero value at inception if the proceeds reflect the market value of the licence (the AN.22 asset's value reflects "*the benefits to the holder in excess of the value accruing to the issuer*" following the ESA 2010 expression in paragraph 15.27 or 15.34). Later on, in case of resale of the licence to a third party, the seller (previous holder) records, at that time, a disposal of a non-produced asset (entering in NP.2) for the difference between the resale value and the value accrued to date of other accounts receivable (AF.8).

9. When the sale of the permit is analysed to be the economic sale of the underlying asset – rather than a lease of the asset –, it is to be recorded as a disposal of the underlying non-produced asset (NP.1, e.g. land) at time of access to the premises. The ability to lock in the value of the sale prior to that time is reflected in the creation of an F.7 derivative (forwards), if it meets the definition of a derivative, pending the effective availability of the asset. This derivative captures the changes in market price that may occur between the sale of permit and the effective availability date of the asset. When the permit buyer on-sells the permit prior to availability, a transaction in derivative takes place for the difference between the pre-payment component (F.8) and the value agreed for the resale. When the permit becomes effective, the permit holder records an acquisition of asset for the market value of the permit (and government a disposal of asset for this value) matched by a liquidation of a receivable (payable of government) and a transaction in derivative for the difference.
10. When availability happens in stages (for instance across various regions), a formula should be used to apportion plausible amounts across time.

3 Recording of proceeds on licences, such as mobile phone licences: income (e.g. rent) or disposal of a non-financial asset (e.g. non-produced)?

3.1 MGDD and ESA 2010

11. During the past two years, Eurostat and Member States have been confronted with the issue that the current MGDD did not seem fully in accordance with Chapter 15 of ESA 2010. The MGDD was reviewed to reflect the transition from ESA 1995 to ESA 2010, and notably the new Chapter 15 of ESA 2010. Some sentences of Chapter VI – *Overview* and some wording of the Box on mobile phone licences, remained either ambiguous or seemed not fully in line with ESA 2010 Chapter 15.
12. In short, whereas ESA 2010 indicates that the transferability of a licence is necessary to recognize a non-produced asset in the case of licences or permits, the MGDD seemed to conclude that transferability is the criteria to decide whether the proceeds on a mobile phone licence should be recorded as NP.2 (with a one-off impact on B.9) or as rent D.45 (with a B.9 impact to be spread over the life of the contract).

3.2 ESA 2010 recording

3.2.1 Renting of non-produced assets

13. Under ESA 2010, any proceeds on a licence to lease a non-produced asset should be recorded as rent D.45 (unless it is the underlying asset itself that would be deemed to be economically sold off – which may occur if the licence period is at least as long as the expected economic life of the underlying asset). Proceeds collected by government on

such sales of licences or permits are thus recorded, at inception, as a payable of government (F.8) and as a receivable of the buyer/user.

14. If the licence is transferable, a non-produced asset is also created, by way of an other change in volume, in the accounts of the buyer/user. At inception, the value of this non-produced asset will typically be zero (e.g. if sold off at auction, thereby sold off for its market value), but will subsequently attract a value when market prices of the underlying asset, and associated rents, change.
15. Subsequently, in case the buyer/tenant uses this transferability option, it will record, at time of resale/transfer to the subsequent buyer/tenant, a disposal of its receivable asset (F.8, for its remaining value, i.e., the amount accrued to date) together with a disposal (or acquisition) of a non-produced asset of the NP.2 class, for the difference with the fair value of the consideration received in exchange (purchase price).
16. Annex 1 provides an accounting example, where a mobile phone licence is sold, one year in advance of the spectrum's availability, to a telecom operator A, which then on-sells the license to telecom operator B during the third year.
17. Hence, *de facto*, when the licence is transferable, it is to be partitioned, under ESA 2010, between a pre-payment asset (AF.8) and a non-produced asset (of the AN.22 class). Partitioning is one essential mechanism foreseen in ESA 2010 1.76-1.77 to ensure enforcing the 'substance over form' principle.
18. This requirement for a partitioning of asset, in the books of the permit holder (arising from the fact that the value of the non-produced asset is set "*equal to the net present value of the excess of the prevailing price over that fixed in the agreement*") is explained, or is implicit, in ESA 2010 paragraphs 7.57, 6.06(g), 15.24, 15.27 and 15.34, 15.43, and 15.44 and 15.44(a), as well as in Annex 7.1 (page 185).
19. This is also implied by ESA 2010 table 15.3 and its related ESA 2010 paragraph 15.27. Table 15.3 indicates that when the permit for the use of natural resources gives control to the user, who also assumes the risks and rewards (to be materialised through transfer), then both rent (D.45) and a new asset is created. ESA 15.28 then confirms that transferability is the criteria to recognise a non-financial asset (although without specifying its value).

Table 15.3 — The recording of three different types of permits for the use of natural resources

Type of use	Method of recording
Permission for temporary use, possibly for a long time	Resource lease: rent (property income)
Control by user during an extended period, risks and rewards borne by the user, transferability of permit at a realisable value	Rent and creation of new asset for the right to use the natural resource
Use to extinction; permanent use (all risks and rewards borne by the user)	Sale of natural resource

20. ESA 2010 paragraph 15.30(b) may be thought to capture (relatively rare) cases where a permit holder sectorised inside government resells its permit (at a premium), or buys a permit on the secondary market (at a discount). Such NP.2 recording may be more routinely observed in general government accounts for pollution permits, where polluting government units are included within pollution licence schemes (i.e. are liable to surrender permits representative of their pollution)(see below).
21. ESA 2010 table 15.4 is more difficult to interpret, and generally seems encumbered by a number of ambiguities. Table 15.4 seemingly restricts “resource lease” to short-term

contracts, directly against ESA 2010 paragraphs 15.23 and 15.27 and table 15.3.¹ In addition, “contracts for future production”, as well as “purchase of a contract transferable to a third permit”, mentioned in this table, can give rise to an acquisition of a non-produced asset only for the value in excess of the value accruing to the issuer (ESA 2010 15.44). Otherwise GDP would be distorted (see below), among other consequences.

3.2.2 Other licences

22. This recording is systematic across licences, permits, or rights, whether the transferable contract involves leasing a produced asset (the asset then created is AN.221) or a non-produced asset (AN.222), or involves future production (AN.224) or involves an authorisation to undertake an activity, granted notably by government (AN.223). The fundamental thrust of the thinking behind “leases, permits and contracts” is to see a commonality between contracts that allow future deliveries at a fixed price, or renting fixed or non-produced assets, or undertaking a future activity.
23. As an illustration, when a purchaser contracts in advance the delivery of a stream of goods – say natural gas –, for a long period, at a fixed price, two things can happen:
 - a. The market price of gas will vary, conferring to such a long-term contract a value, which will change according to movements in market prices. ESA 2010 has decided to recognise this value as a non-financial asset (of an AN.224 type) only when the permit is transferrable.
 - b. The buyer may propose to pay upfront for the goods (or part of them) to be delivered. This upfront payment cannot be seen as a purchase of a non-financial asset, because otherwise, later on, GDP would be underestimated (when gas is delivered: exported or sold to a final consumer) and/or the input-output tables would be severely distorted. The upfront payment is certainly, for the permit purchaser (holder), an acquisition of an asset, but of the financial asset type: a trade receivable.
24. As a result, a transferable contract involves partitioning the contract into two assets: a trade receivable (AF.8) plus a non-produced asset (AN.22). At inception, it is likely (but not necessary) that the AN.22 has a zero value, notably when sold at auction (since the auction process establishes the market value of the licence).
25. There is a clear analogy between the partitioning required for transferable licences under ESA 2010 and the need to partition so-called off-market swaps. ESA 2010 paragraph 20.133 and MGDD Chapter VIII.3 prescribe that, in the case of off-market swaps, the proceeds at inception are to be partitioned between a loan component, AF.4, and a derivative component, AF.7, of zero value. Plain-vanilla swaps have zero value at inception.
26. Spreading proceeds collected on a licence sale ensures properly recognising the economic phenomenon at play. It avoids distorting the net income of the licence holder, whose gross income that its activity generates partly arises from the exploitation of the licence it holds. It also avoids front-loading a one-off (net) revenue for government, and instead spreads the revenue over time, as government is actually leasing an asset over time. It is proper to

¹ Perhaps the “i.e.” in table 15.4 was meant to mean “e.g.”.

record government revenue only over time, in this case, as government has to ensure, at any point in time, the genuine availability of the asset being leased.

27. When the contract, licence or permit concerns future delivery of products (P.1 for the seller and P.2 or P.3 for the buyer/permit holder), as in the paragraph 23 above, an asset of the AN.224 class is created. The same logic applies if what is to be delivered is the right to lease a building (recorded as production in national accounts, P.1), and here the transferable asset is of the AN.221 class. The same situation occurs if the lease of a building in fact essentially relates to a lease of land (e.g. in the centre of large cities – where the land value greatly exceeds the fixed asset value) or if the lease concerns oil reserves: in these cases, the asset is of the AN.222 class (together with rent, D.45). Leases of the radio spectrum are like leases of land: they are leases of natural resources, giving rise to AN.222. When the contract does neither concern the lease of an asset nor the delivery of products, but concerns a mere authorisation that government grants to others, then, the underlying revenue transaction is a tax on production (D.29, rather than P.1 or D.45), and an asset of the AN.223 class is created.
28. When licences are returned to government, including for free, the difference between the redemption in payable existing at that time and the amount refunded by government, if any, is recorded as government revenue.
29. When licences are sold off in a foreign currency, the amounts are to be recorded according to national accounts rules for recording delivery of services in stages against fixed payments made in foreign currency, in one or in a number of instalments. When there is one unique instalment at inception, the amount to record and to spread is fixed in national currency. When there are various instalments, the amount to record and to spread is again fixed in national currency, and the issuing government has a liability or a claim labelled in foreign currency leading to entries in the revaluation accounts.

3.3 ESA 2010 versus 2008 SNA

30. ESA 2010 Chapter 15 departs somewhat from the 2008 SNA prescription for mobile phone licences, which tends to reflect the inter-secretariat working group on national accounts (ISWGNA) agreement that took place in 2000-2002, and was implemented in the MGDD under ESA 1995.² However, ESA 2010 is a regulation, and thus, the MGDD cannot deviate from it in order to follow 2008 SNA.
31. In addition, the ESA 2010 Chapter 15 was written after the 2008 SNA and, as a result, benefited from a better perspective. ESA 2010 is thus more systematic and more elaborated than 2008 SNA on this issue. 2008 SNA instigated a significant rethinking over “leases, permits and contracts”, rolled out in Chapter 17 Section 5 “Contract, leases and licences”.
32. One of the forces modifying the general perception on how to record licences and permits was the reflection on the recording of permits to undertake an activity, in particular pollution permits (e.g. carbon allowances), for which discussions had not fully matured in

² The UK opposed this agreement, notably referring to ESA 1995 paragraph 6.12, and for many years sent data showing mobile phone proceeds spread over time under rent D.45. As a result, in the EDP press release, Eurostat systematically changed, during those years, the UK EDP deficit in order to reinstate the non-produced asset sale recording (K.2 under ESA 1995).

time for the 2008 SNA. The ISWGNA provided a subsequent clarification for these carbon allowances.³

3.4 Pollution permits

33. Indeed, one well known class of transferable permits are pollution permits (as used in the EU Emissions Trading Scheme – ETS). The ISWGNA agreed to see both a tax and a non-produced asset, thus leading to the understanding that such permits had to be partitioned, at inception, between an AF.8 component and an AN.22 component, as seen above.
34. It is now well understood that the asset created of the AN.223 class is of zero value initially (when the licence is sold at auction). As a result, the cash paid by the buyer to government is recorded as a payable of government: a prepayment of a tax, pending the submission or surrendering of the permit (which then is recorded as a tax on production). See MGDD VI.5 *Emission trading allowances*.
35. Thus, this guidance note also serves to homogenise various guidelines in different MGDD chapters.

4 Implementation and consultation procedure

4.1 Implementation

36. New contracts (mobile phone licences, exploration rights and other licences or permits) signed in 2017 or later will have to be recorded as rent (when concerning the lease of a non-produced asset, otherwise to be recorded as production or as tax), based on the updated MGDD, from the April 2017 notification onwards.
37. Member States are advised to implement the updated MGDD without delay (for the April 2017 notification) for all existing contracts, including those signed in 2016. Eurostat however leaves an option to Member States to implement this recording for existing contracts (including cases where the licences become available in the future) starting from a convenient date from the point of view of the revision policy of each Member State.
38. For countries electing not to implement the rules for all existing contracts immediately, implementation of the rule for all the reporting period (from 1995 onwards) should be carried out by the next benchmark revision, at the latest.

4.2 Consultation procedure

39. Eurostat and Member States discussed the issue of the consistency between ESA 2010 Chapter 15 and the MGDD Chapter VI.1 in the Task Force GFS in November 2015 and during the Excessive Deficit Procedure Statistics Working Group (EDPSWG) of June 2016 (item C.2 *Mobile phone licences and explorations rights*). The issue of time of recording when licences are awarded ahead of availability was also discussed at the June 2016 EDPSWG meeting.
40. During the September 2016 meeting of the Task Force on methodological issues, both issues were discussed further, based on a Eurostat note and on a proposed draft to amend

³ See *SNA News and Notes* 30/31 (February 2011) as well as 32/33 (March 2012).

the MGDD Chapter VI.1 (with selected changes to the MGDD focused on the two issues at stake). The Chair concluded that the Task Force on methodological issues found no objection to the analysis of Eurostat, and considered that, accordingly, an amendment of the MGDD was needed.

41. The issue was presented for final review to the EDPSWG in December 2016. Taking note that no objection was raised by any EDPSWG member, but mindful of the fact that this alignment of the MGDD to ESA 2010 was coming with some delay, the Chair concluded that the proposed flexibility for implementation was necessary (see previous section 4.1).
42. The draft guidance note was circulated for approval and comment to the EDPSWG on 23 January 2017 (for comments by 1 February) and, subsequently, to the DMES on 14 February 2017 for final approval (for comments by 28 February).
43. Thirteen Member States⁴ have provided an opinion, as well as an observer. Two Member States have objected to this guidance note, although one did so out of procedural reasons.

⁴ BE, DE, DK, ES, FR, IT, AT, NL, PL, SK, FI, SE, the UK.

Annex 1

A mobile phone license is sold during year 1 to a 1st purchaser (Telecom A) for 100. It allows access to the radio spectrum for 10 years, but only starting from the beginning of year 2 onwards. Owing to market changes, the market price of this access gains 20 towards the end of year 2. In year 3, the licence holder sells the licence to a 2nd purchaser (Telecom B) at the end of the 1st quarter. The selling price is 107 (= 100-12.5+20-0.5=90-2.5+20-0.5). The non-produced asset is amortising at approximately 2 per year (0.5 per quarter). In this example, the licence value of 100 is spread linearly (instead of considering the present value of the transactions) for simplification purposes.

Government		Telecom A		Telecom B	
Starting balance sheet year 1		Starting balance sheet year 1		Starting balance sheet year 1	
A	L	A	L	A	L
AF.2	0	AF.2	100	AF.2	200
Transactions		Transactions			
Use/ Δ fi. asset	Resources/ Δ liabili	Use/ Δ fi. asset	Resources/ Δ liabili		
F.2	100	F.2	-100		
	F.8	F.8	100		
Other economic flows		Other economic flows			
Δ fi. asset	Δ liabilities	Δ fi. asset	Δ liabilities		
		K.1	0		
Closing balance sheet year 1		Closing balance sheet year 1			
A	L	A	L		
AF.2	100	AF.2	0		
	AF.8	AF.8	100		
	100	AN.222	0		
Use/ Δ fi. asset	Resources/ Δ liabili	Use/ Δ fi. asset	Resources/ Δ liabili		
	F.8	F.8	-10		
	D.45	D.45	10		
	10				
Δ fi. asset	Δ liabilities	Δ fi. asset	Δ liabilities		
		K.7	20		
Closing balance sheet year 2		Closing balance sheet year 2		Closing balance sheet year 2	
A	L	A	L	A	L
AF.2	100	AF.2	0	AF.2	200
	AF.8	AF.8	90		
	90	AN.222	20		
Use/ Δ fi. asset	Resources/ Δ liabili	Use/ Δ fi. asset	Resources/ Δ liabili	Use/ Δ fi. asset	Resources/ Δ liabili
	F.8	F.2	107	F.2	-107
	D.45	F.8	-90	F.8	80
	10	D.45	2.5	D.45	7.5
		NP.2	-19.5	NP.2	19.5
Δ fi. asset	Δ liabilities	Δ fi. asset	Δ liabilities	Δ fi. asset	Δ liabilities
		K.2	-0.5	K.2	-1.5
Closing balance sheet year 3		Closing balance sheet year 3		Closing balance sheet year 3	
A	L	A	L	A	L
AF.2	100	AF.2	107	AF.2	93
	AF.8	AF.8	0	AF.8	80
	80			AN.222	18

Annex 2

Part VI Leases, licences and concessions

VI.1 Overview

VI.1.1 Background on general principles

1. Among government receipts, there are rents, rentals, licence fees, tolls, administrative charges and royalties, some of which may arise under leasing contracts, concessions, public-private partnerships (PPPs) or franchises given by government. They cover different types of transactions in national accounts, explained in various chapters in ESA 2010, principally in chapters 15 and 20.
2. This Part of the Manual highlights the problem of distinguishing between output of government (sales of goods or services), taxes, rent, and sales of assets. The analysis is categorised as follows:
 - a) Receipts from sale of goods and services produced by government (that could be supplied by other units in the economy).
 - b) Receipts for the use of a produced asset owned by government.
 - c) Receipts for the use of a non-produced asset owned by government.
 - d) Receipts in return for permission from government to undertake an activity.

Terminology

3. The development of various forms of long-term contracts between government units and corporations, notably under the wording of "public-private partnerships", requires a clarification of the terminology used in the context of national accounts. This terminology may be used differently here than it is elsewhere.
4. Concessions: these are commonly contracts for infrastructure equipment that can be subject to commercial exploitation. In this type of long-term contract, the corporation (or group of corporations) is responsible for the building, operating and maintenance of the equipment and is predominantly remunerated by the final users (households, corporations, etc.) of the equipment who pay tolls or other fees.
5. PPPs: in a growing number of countries, government units have used the services of private corporations (or group of corporations or specific vehicles) to build, operate and maintain equipment designed to render some public services, not typically subject to commercial activity: public hospitals, schools and universities, prisons, etc. It is recommended to use the term PPPs in national accounts only for those contracts where government is the main purchaser of the service. Chapter VI.4 in this Manual deals with this type of contracts.

VI.1.2 General treatment in national accounts

VI.1.2.1 **Government receipts for goods and services (that could be supplied by other units)**

6. The receipts could be less than, the same as, or more than the costs of production: this does not affect their classification.

Treatment: record as a sale – output (P.1), notably market output (P.11) if the prices charged are economically significant. Examples are receipts for provision of training; fees charged for advice to businesses or for research contracts, or testing the ability of somebody to carry out an activity (e.g. drive a vehicle).

VI.1.2.2 Government receipt for the use of a produced asset

7. The receipts could be less than, the same as, or more than the costs of production: this does not affect their classification.
8. Two sub-categories of receipts may be distinguished depending on the time period.
 - i. Receipts are made **each time the asset is used, or there is a single receipt allowing use of the asset for a period of time less than one year** (and this is not part of a contract requiring receipts for a use over a longer period).

Treatment: record as a sale – output (P.1), notably market output (P.11) if the prices charged are economically significant.

Examples: rental of a government-owned building; road and bridge tolls; vignette for use of specific roads for a certain length of time; charges for use of a sports centre or swimming pool; entry fee to a public building.
 - ii. The receipt payment is part of a contract that allows the use of the asset for a **period of more than one year, but for less than the economic life** of the produced asset, e.g. in concession or PPPs-type contracts. One or several individual payments might be required under the contract. It is the time period of the contract that matters, not the number of payments.

Treatment: apply the operating lease/financial lease test (ESA 2010 15.11 and 15.16-15.18) and in the case of PPPs, the assessment of the distribution of risks (see chapter VI.4 Public-Private Partnerships). Although it is unlikely that government would see itself as being in the business of providing financial leasing, it could be appropriate to record the sale of the existing asset by government when the purchasing unit assumes most of the risks and rewards of ownership for the period of the contract.

Operating lease and PPPs where government is deemed as being the economic owner of the assets: record as rentals (P.1), in the case of one initial receipt it would be necessary to accrue it over the period of the contract and record the prepayment as a financial advance (F.8).
9. Examples are a single up-front receipt from a company to occupy a government-owned building for five years: record as rentals (P.1), accrue it over the five years, and record a financial liability in other accounts payable (F.8).

VI.1.2.3 Government receipts for the use of natural resources

10. Government natural resources (AN.21) include land, sub-soil assets, and other tangible natural assets over which ownership rights of government have been enforced, either through legal ownership or international agreement or convention, which may or may not be owned and traded by other units in the economy. This category excludes the following:
 - government receipts for the use of natural resources if such revenue arises from special legislation giving government the right to demand such payments when it is not the legal or economic owner of the assets;
 - government receipts when it is not the economic owner, or when economic ownership is not established and it is not credible to regard government as the economic owner of the assets;
 - “environmental assets” which are not regarded as economic assets in ESA 2010 (see chapter 7, Balance sheets, Annex 7.1).
 - indirect revenue from the natural resources, for example dividends from public corporations exploiting natural resources and corporate tax from corporations exploiting natural resources (ESA 2010 15.30).
11. Revenue for the use of natural resources includes the following two types of receipts:

- Those made each time the asset is used, or there is a single receipt allowing use of the asset for a finite period of time.
 - The natural resource is made available by government through a lease, licence or permit, for a limited period of time.
12. Treatment: record as rent (D.45): in the case of one initial receipt, it is necessary to accrue it over the period of the contract and to record the prepayment as a financial advance liability (F.8). An example is when government receives royalties paid for the extraction of oil.
 13. If, for example, there is a single receipt from a company to exploit offshore oil reserves for five years: record as rent (D.45) accrued over the five years and record a prepayment in F.8. Note that a non-produced asset (AN.22: “contracts, leases and licences”) will appear on the balance sheet of the lessee company if subsequently the market rent rises above the rent agreed in the contract, and the company has the right to transfer the rights to a third party (a transferable lease).
 14. If the government receipt for the use of its natural resources covers a period equal to or longer than the rest of its economic life, then it is recorded as the economic sale of a non-produced asset (natural resources: NP.1). For example, government is economically acting in the same manner as if selling land when it grants an infinite lease for its use. This situation may be rare for finite leases, since natural resources do not “depreciate” in the same manner as produced assets and hence often have infinite economic life lengths, but it is possible in cases such as the depletion of oil reserves and technological obsolescence.

VI.1.2.4 Note on non-produced assets (AN.22)

15. Acquisitions or disposals of non-produced assets (NP.1 – NP.3) are to be recorded only in certain defined circumstances. In general, payments for using assets made under leases, franchises, or concessions are recorded as sales of services (“rentals” P.1) or rent (D.45), or the economic sale of the asset being exploited (P.51g in a financial lease, NP.1 in a resource lease), as described above.
16. ESA 2010 6.06 (g) describes the case where a non-produced asset should be recorded for contracts, leases, licenses or permits: when a unit (the second party) has a right to buy services or rent at a particular price from a first party, and that price is lower than the current market price, and it can transfer that right to another unit (the third party). Such assets arise, for example, when the price to be paid for the consumption of services is agreed, or paid, in advance under a contract for a number of years, and subsequently the actual market price becomes higher than the contract price. A transaction in non-produced asset (NP.2) occurs at the time the second party resells or retransfers the lease or permit to a third party for an amount equal to “*the benefits to the holder in excess of the value accruing to the issuer*” (ESA 2010 15.27 and 15.34)
17. Example: a unit (Unit B) buys five years' worth of services from another unit (Unit A) at the market value at the time the contract is agreed. Unit B pays in advance. The accounts of unit B record regular payments for the services and a financial asset in F.8, in respect of the pre-payment, which is gradually reduced over the contract period. Suppose that after two years unit B transfers the rights to the services to a third unit (Unit C) for an amount greater than it would have had to pay itself (the value of its remaining prepayment financial asset). The accounts of Unit B show the receipt split between an amount to purchase the AF.8 pre-payment financial asset and the sale of a non-produced asset (AN.22), which arose in the accounts of Unit B under K.7 holding gains and losses. If a transferable value was present at the inception of the contract, then the AN.22 asset initially appears via economic appearance of assets (K.1) in the other changes in volume of assets accounts and was recorded in the balance sheet of Unit B as an AN.22 asset (contracts, leases and licences). The sale of the AN.22 non-produced non-financial asset

is recorded under NP.2. The purchaser (Unit C) now has both the financial asset and the non-produced asset on its balance sheet, and will record payments for services, at the original contract price (corresponding to the financial asset), while, assuming the market value remains constant, the amortisation of the non-produced asset is recorded over time in the accounts of Unit C under the item economic disappearance of non-produced assets (K.2), see ESA 2010 6.07.

18. It is thus possible to record the sale of non-produced assets of an NP.2 type in government accounts in cases when government, as second party of a lease (i.e. as tenant), sells or transfers the lease to a third party.

VI.1.2.5 Government receipts in return for granting permission to undertake an activity

19. This category excludes receipts for the use of an asset owned by government – these have already been described above. The receipts under consideration might involve those associated with an asset owned by the payer, an asset owned by neither the payer nor the government, or no assets at all. The key point is that legally the activity requires permission from government, and so it is not a payment that could be demanded by other units in the economy. In addition to the administrative procedures required to give the permission and enforce the rules, the government may (or may not) provide a service to the payer, or to society (assessment of conformity, quality checks, etc.). This is recorded as a sale of a service (case a) or a tax (case b), depending on the circumstances as described below and in ESA 2010 4.23 (e) and 4.79 (d), or in specified circumstances as the sale of a non-financial non-produced asset (case c).

Treatment:

a. Sale of service

20. Record as sale of a service (P.1) if the government undertakes work specifically related to the payer (typically to assess whether the payer should be granted the permission requested) and the receipt is deemed to only cover an amount up to equal to the cost of the work undertaken by government.
21. The calculation of costs, to assess whether they are in proportion, should include all costs that a private company would need to cover when setting a price and so includes compensation of employees, intermediate consumption, capital consumption and other taxes on production (see ESA 2010 3.33), directly associated with the service performed. A government unit might provide a range of similar services but price them differently to reflect the different costs required, for example, in order to influence demand in a way that allows the service to be delivered more efficiently (the price might be higher at certain times of the day when demand is normally highest, or the price of a service delivered over the internet might be lower than a more personal delivery of the service). If there is, by design, a surplus compared to the cost of the service, then, the whole payment should be considered as a tax. Although ESA 2010 allows for partitioning of some transactions (ESA 2010 1.76-1.77), this does not apply here as taxes are recorded gross of any service element. The term, used in ESA 2010 4.79, "...out of all proportion", is not specified but in this instance covers situations whereby the unit deliberately charges prices to generate a surplus over costs to provide funds for government to be used for other purposes. The receipt payment is for a service, and not for a permission, so it should be recorded at the time when the work is undertaken irrespective of the length of time the permission is granted for. ESA 2010 4.79 (d) describes this in more detail.

b. Tax

22. Record as a tax if the conditions above do not apply (when the fees charged exceed the cost of any service received in return which is associated with the granting of the permission).

23. The tax would be recorded as D.29 if paid by corporations, or D.59 if paid by households. A capital tax D.91 would be recorded if it were an infrequent levy on a permission to own an asset, or a levy on the increase in value of an asset as a result of government permission – perhaps to construct a building on a particular parcel of land (see ESA 2010 4.149 (b) on betterment levies).
24. Examples are annual permission to use a motor vehicle irrespective of where and when it is used; a licence to fish or hunt that is required wherever the hunting and fishing takes place; a charge for the use of buildings when the government does not own them; charges for the permission to own particular types of assets; fees levied on industries to fund consumer protection or research where the work is undertaken to benefit consumers and/or the industry in general rather than funding services delivered directly to the individual business paying the levy (ESA 2010 15.32).
- c. Sale of non-produced non-financial asset**
25. In some cases, when a government receipt involves granting permission to undertake an activity (unconnected to an asset owned by government), the permission is given exclusively to one unit or to a restricted number of units, creating a monopoly or near-monopoly for the holders of the permission. Other units cannot obtain government permission to undertake the activity, and government ensures that the restriction is enforced. This exclusion of other units may give rise to a non-financial non-produced asset on the balance sheets of the units that have the permission. ESA 2010 15.37 states four conditions to recognise such asset: no use of a government asset; no qualifying criterion for the permission; limited number of permits leading to monopoly (oligopoly) profits; and the possibility to sell the permit to third party.
26. When no government asset is used the receipts are recorded as taxes (ESA 2010 15.32).
27. The appearance of an AN.223 asset in the purchaser's balance sheet needs to be accounted for through other flows (first through K.1 and subsequently through K.7) before the resale of licence to a third party takes place for an amount equal to the benefit to the holder in excess of the value accruing to the issuer (see ESA 2010 15.34, 6.06.g and 7.57). If the permission granted is time limited, the balance sheet of the asset holder would show a decrease in the value of the non-produced asset using other flows (K.2) (amortisation of the asset), see ESA 2010 15.34 and 6.07.b.
28. One example of receipts involving granting permission to undertake an activity unconnected to a government-owned asset is constituted by (carbon) emission permits. Such receipts are recorded as prepayments of taxes while at the same time a non-produced asset is recognised (ESA 2010 15.40) for an amount equal to the benefit to the holder in excess of the value accruing to the issuer (that is, in this case: the market value of the permit less the payment originally made to government to acquire that permit). See Chapter VI.5 Emission trading allowances.

VI VI.1.2.6 time of recording: specific case of permits sold in advance of availability

29. Sometimes, a time-lag exists between the time the permit/licence is sold off, issued, transferred or otherwise officially allocated, and the time when the permit/licence allows actual availability of the licensed asset. This has been often observed for mobile phone licences, sometimes allocated (and thus potentially often resalable/re-transferrable) significantly ahead of when the frequencies actually become available for use – they may be under use by another permit holder, or by the same one but under a separate licence.
30. This selling of permit/licence ahead of the use date can occur for any type of licences or permits: for using a fixed asset, for using a non-produced asset, for obtaining the right to engage in an activity (including polluting), or for obtaining a right to carry transactions at a fixed price.
31. According to the accrual principle, the recording of the associated revenue (rent, production or tax, according to the classification of the underlying asset the permit allows

use of – rent in case of mobile phone licences) or as a disposal of asset (of the underlying asset, NP.1 or P.51g) can be recorded only at the point in time when the asset is available for use (for example when the frequencies become available for commercial use in the case of mobile phone licences) for a production activity.

32. Receipts collected by government at time of auction, or of allocation, of the licence are financial advances: a prepayment to be recorded as other accounts payable (AF.8).
33. If the permit or licence is transferrable, the purchaser records in its balance sheet, in addition to the financial advance, a non-produced asset of the 'contract, leases and licences' type (AN.22), for a value initially of zero in an auction and more generally for an amount equal to "*the benefits to the holder in excess of the value accruing to the issuer*" according to ESA 15.27 and 15.34 (see also ESA 7.57: "*the value of the asset is equal to the net present value of the excess of the prevailing price over that fixed in the agreement*"). When the permit/licence holder resells or retransfers the permit or licence, it records a disposal of its receivable asset (F.8) for the amount accrued in its balance sheet (AF.8) together with a transaction in a non-financial asset (NP.2) for the difference with the fair value of the consideration received in exchange (purchase price).
34. If the granting of the permit or licence is the *de facto* economic disposal of the underlying asset, and the permit is transferrable, the purchaser records in its balance sheet, in addition to the financial advance, a financial derivative (forward), if it meets the definition of a derivative, pending the effective availability of the asset. This derivative captures the changes in market price that may occur between the sale of permit and the effective availability of the asset. When the permit buyer on-sells the permit prior to availability, a transaction in derivative takes place for the difference between the pre-payment component (F.8) and the value agreed in the resale. When the permit becomes effective, the permit holder records an acquisition of asset for the market value of the permit (and government a disposal of asset for this value) matched by a liquidation of receivable (payable of government) and a transaction in derivative for the difference.
35. When the permit or licence is made available only progressively (for instance only a part of the frequency bands are freed, or only for some areas), the proceeds to record should be apportioned accordingly, using relevant indicators such as (for the mobile phone case) the population covered or the expected/observed turnover – in consultation with Eurostat.

VI.1.3 Rationale of the general treatment

VI.1.3.1 Government receipts from sale of goods and services (that could be supplied by other units)

36. The treatment is always to record an output (P.1) of government. The only difficulty might be to distinguish between market output (P.11) and payments for non-market output (P.131). The distinction refers to the notion of economically significant price (see ESA 2010 20.19-20.34 and Part I Delimitation of the general government sector).

VI.1.3.2 Government receipts for the use of a produced asset

37. The main distinction is to be made between operating lease (output, P.1) and financial lease (sale of an asset, P.51). According to ESA 2010 chapter 15 (Contracts, leases and licences):
 - 1) An operating lease of an asset or a durable good:
 - covers a certain period of time which may be long or short and not necessarily settled in advance,
 - implies no transfer of economic ownership, the legal owners retain the risks and rewards, one indicator being that they provide repairs and maintenance.
 - 2) A financial lease:

- covers a predetermined period of time, usually for all, or most of, the economic lifetime of the asset⁵,
 - risks and rewards from using the asset are transferred from the lessor to the lessee, one indicator being that the lessee provides repair and maintenance.
38. In a financial lease, economic ownership of the good has been transferred. The lessor's role is purely financial. National accounts recognise the economic reality behind financial leasing as the equivalent to the lessor providing the lessee with a loan enabling them to purchase an asset, of which the lessee becomes the *de facto* owner.
39. In the specific case of concessions under public law for financing and exploiting public infrastructure and PPPs, see further VI.3 and VI.4, respectively.

VI.1.3.3 Government receipts for the use of a non-produced asset

40. A distinction is made between the usual case of using (or exploiting) a non-produced asset (natural resources like land, sub-soil assets or other natural resources – ESA 2010 4.72 to 4.76) for a limited time (D.45 rent) and the availability to use until depletion of the economic value of the asset (sale of the asset).

VI.1.3.4 Government receipts for permission granted to undertake an activity

41. A distinction is to be made between the recording of a tax and of sale of services (output, P.1).

Distinction between taxes and sales of services

42. ESA 2010 4.79 (d) mentions the criteria to distinguish taxes and sales of services:

The distinction between taxes and purchases of services from government is defined according to the same criteria as those used in the case of payments made by enterprises, namely, if the issuing of licences involves little or no work by government, the licences being granted automatically on payment of the amounts due, it is likely that they are simply a device to raise revenue, even though the government may provide some kind of certificate, or authorisation, in return; in such cases their payment is treated as taxes. If, however, the government uses the issue of licences to organise some proper regulatory function (such as checking the competence, or qualifications, of the person concerned), the payments made are treated as purchases of services from government rather than the payments of taxes, unless the payments are clearly out of all proportion to the cost of providing the services".

43. Government acts in an economy in two relevant ways:

Civil commercial law

- Under civil commercial law government undertakes economic transactions that can also be undertaken by other units. For example, it employs staff, consumes goods and services, rents land, owns fixed capital assets, sells the output of services using assets, and so on. For government transactions under civil law, ESA 2010 chapter 3 is applied to classify the productive activity of government; chapter 4 is relevant for classifying the compensation of employees and property income.
- ESA 2010 3.39 explains that it is possible, for government revenue from selling goods and services to be classified either as market output or as payments for non-market output. Under ESA 2010 3.26, a non-market institutional unit can have market output, but the major part of the output is provided for free or at not economically significant prices. ESA 2010 4.73 explains that charges for the use of produced fixed assets situated on land are treated as sales of services, not rent, and also what to do when

⁵ However, ESA 2010 15.18 stresses that the length of the lease should not be the predominant criterion for the classification of the contract.

the charges cover both land and buildings and cannot be distinguished. ESA 2010 chapters 6 and 15 describe when to record transactions in contracts, leases and licences.

Public law

- Under public law, government undertakes economic transactions that are unique to government. For example, in the context of government receipts, government can raise taxes, enforce social security schemes, grant permissions/licences, and impose fines.
- The paragraphs in ESA 2010, chapter 4, Distributive transactions, in the part on taxes and social security contributions are relevant here. ESA 2010 4.23 (e) and 4.79 (d) explain the differences between sales of services and taxes.
- ESA 2010 4.79 (d) concerns payments by households for the use of assets (vehicles, boats, and aircraft) owned by the payer or hired to the payer. It does not apply to charges for the use of assets owned by government: this is either output (for the sale of a service) or rent, not tax.

Box 1 – Allocation of mobile phone licences

1. In most EU Member States, mobile phone licences (in most cases UMTS – Universal Mobile Telecommunications System, “3G”, then more recently “4G”) have been allocated to operators from 1999 onwards, through diverse methods according to country, including for free.
2. Initially, according to ESA 1995 interpretation, payments to government had to be recorded as rent (D.45) if the contract applied to a period by convention of five years or less, or if the contract did not name the total price of the disposal, depending, on the economic performance of the corporation, at least for a large part of total payments over the life time of the contract. The electromagnetic spectrum (the radio waves) was deemed to satisfy the definition of an asset in national accounts.
3. Under ESA 2010, the radio spectrum is explicitly identified as a natural resource (AN.2151). There is no specific mention for UMTS or mobile phone licences but chapter 15 (ESA 2010 15.23 to 15.30) covers leases on natural resources, including referring to leases of radio spectrum. It is specified that if government issues a permit which gives the control on the natural resource asset to its holder during an extended period, bearing the associated risks and rewards, a new asset may be recorded in the accounts of the licence/permit holder (AN.222 “permits to use natural resources”) provided that “the transfer of risks and rewards results in a separate and transferable permit with a realisable value” (ESA 2010 15.28).
4. Thus, to recognise a non-produced asset, the permit/licence holder must be able, over the lifetime of the licence, to realise value from the permit if it wishes to exit from the activity. To achieve this, the licence must be transferable to a third party. Generally, these transactions have to follow a specific procedure. Similarly to other cases of licences or concessions/PPPs, this may require a government authorisation for the license resale or transfer, notably in order to assess the technical capacity of the acquirer to undertake the related activity, together with its financial strength.
5. The contract may also foresee that the transaction must only take place through government and not directly between the agents involved in the transaction. Under these conditions, the licence could be considered transferable and an AN.22 asset is, thus, recognised in the accounts of the licence buyer/holder.
6. On the contrary, if government has the right to oppose the transfer for any reason, or if the contract requires the permit holder to keep the licence until its extinction, no AN.22 asset is recognised in the accounts of the licence buyer/holder.
7. Government receipts are in any case to be recorded as rents (see ESA 2010 Table 15.3 – *The recording of three different types of permits for the use of natural resources*).

Table 15.3 — The recording of three different types of permits for the use of natural resources

Type of use	Method of recording
Permission for temporary use, possibly for a long time	Resource lease: rent (property income)
Control by user during an extended period, risks and rewards borne by the user, transferability of permit at a realisable value	Rent and creation of new asset for the right to use the natural resource
Use to extinction; permanent use (all risks and rewards borne by the user)	Sale of natural resource

8. A recording of NP.2 in the government accounts on licence transactions can nonetheless arise, for instances in the rare case where a unit classified inside government resells or retransfers, for a gain or a loss, a permit previously acquired at auction, or purchases such a licence on the secondary market (for a value different than the receivable accrued in the books of the seller).