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Adoption of Concept of Change of Economic Ownership

Prepared by the Statistics Department
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ADOPTION OF CONCEPT OF CHANGE OF ECONOMIC OWNERSHIP

The principle of change of ownership is central to the determination of the timing of recording of transactions in financial and nonfinancial assets (including transactions in goods). The term "economic ownership" better reflects the underlying reality economic accounts are attempting to measure. Economic ownership takes account of where the risks and rewards of ownership lie. Legal, physical, and economic ownership are related concepts and can be defined. The proposal does not bring about changes in existing treatments, but provides a more coherent rationale for them, and also that it is hoped that the proposed terminology will provide a basis that may better assist in classifying new types of arrangements as they arise in the future.

The Advisory Expert Group on National Accounts accepted the issue for the review of the *1993 SNA*, but noted that this concept has implications for all macro economic statistics and that it is important to use same concept across all statistics.

Current Treatment and Concerns

The *1993 SNA* does not explicitly define ownership. Often it seems to imply legal ownership (paras. 3.97, 3.100), but in some instances it relies on the concept of change of economic ownership when legal ownership remains unchanged (paras. 6.118). *BPM5* mentions that the change [in ownership] may be legal, or physical, or economic (para. 111), but it notes cases where no change in legal ownership occur as exceptions to the change of ownership principle (para. 119).

In general, a change in legal ownership also involves a change in economic ownership. In some cases, a change of economic ownership takes place even though the legal ownership remains unchanged (for example, financial leases and transactions between an enterprise and its foreign branches). It should also be noted that commercial arrangements appear to be making more use of the possibility of splitting legal title from the risks and benefits of ownership.

The change of economic ownership formulation also fits better with the International Accounting Standards (IAS). Paragraph 14 of the IAS 18 (Revenue) describes revenue recognition from sale of goods (the main criteria being when the enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods). Paragraph 20 of the IAS 39 (Financial Instruments: Recognition and Measurement) states that when an entity transfers a financial asset, it shall evaluate the extent to which it retains the risks and rewards of the financial asset.

Proposal in the Annotated Outline

Paragraph 3.10 of the Annotated Outline stated that the new manual will propose that "change of economic ownership" would be the proper term for determining the time of recording for transactions in goods, nonproduced nonfinancial assets, and financial assets. The proposed new terminology avoids the need for exceptions to the principle that arose in *BPM5*. If the proposal is accepted, a definition of "economic ownership" needs to be added along the lines described in the *1993 SNA* (paras. 6.118,10.44, 11.31, 14.58). These paragraphs state that a change in ownership from an economic point of view means that all risk, rewards, and rights and responsibilities of ownership in practice are transferred.

Responses to the Annotated Outline's Proposal

A total of 15 countries responded, 14 countries agreed with the proposal to use the term "change of economic ownership", and one country found the proposal interesting and would like to see it further explored. OECD, BIS, and ECB are also in favor of the proposal.

Question for the Committee

Does the Committee agree with the proposal to adopt the term "change of economic ownership" instead of "change of ownership"?