STATISTICS

GFSM 2014 update

Proposed Recommendations Document:

1.29 Add Clarifications on the treatment of terminal costs during ownership transfer for different types of assets.[1]

Summary Details

Links to Related Guidance/Discussion/Issue Notes and Latest Manuals: WS.9 Recording of Provisions Add Clarifications on the treatment of costs of ownership transfer for different types of assets Draft *2025 SNA* and Draft *BPM7* [2]	
Global Consultation(s):	SNA: August 2022
Discussions at the Advisory Expert Group on National Accounts (AEG) / Balance of Payments Committee (BOPCOM) Meeting(s):	AEG: October 2022
Discussions at GFSAC Meeting(s):	To be determined
Summary of Proposed Recommendations: This proposed recommendation is to adopt in the updated *GFSM 2014* the same treatment of terminal costs as described in the draft *2025 SNA* update, to maintain consistency. It is recommended to maintain the *GFSM 2014* treatment of terminal costs being recognized at the time the related asset enters the balance sheet and written off over the whole life of the asset, but to record a counterpart entry of provisions at the liability side when terminal costs are estimated and included in the asset's valuation. The draft *2025 SNA* guidance on terminal costs reflects proposals made in SNA Guidance Note WS.9 on Recording of Provisions.	

[1] The title was changed from the original title "Add clarifications on the treatment of costs of ownership transfer for different types of assets" since the only application for the GFSM was dealing with terminal costs and not the costs of ownership transfer.

[2] Links are to the "white cover" versions of the *2025 SNA* and *BPM7*. While technically still considered draft only editorial amendments will be made between these versions and the final versions.

Background and Issues

1. The issues regarding terminal costs primarily revolves around their recognition and treatment in national accounts. These issues include recognition of terminal costs, the impact on asset valuation, treatment of depreciation over the service life of the asset, alignment with accounting standards, and the economic interpretation.

2. Terminal costs refer to the expenses associated with decommissioning or restoring assets at the end of their service life. If terminal costs are not properly accounted for, it could have an impact on the asset valuation and could lead to negative asset values on the balance sheet. This complicates the understanding of the financial health of institutional units, particularly in sectors like mining and energy.

3. Draft *2025 SNA* (para. 17.58) notes that expected terminal costs are to be added to the value of the asset at the time the asset enters the balance sheet, with a counterparty entry of provisions at the liability side, which avoids a negative value at the end of the assets' life. This approach aims to provide a more accurate picture of the asset's value and the associated costs over time. *GFSM 2014* (paras. 6.60 and 8.6) mentions that terminal costs should be written off over the whole life of the asset. This means that these costs are recognized as part of the asset's overall expense during its useful life rather than being incurred only at the time of disposal. At the time of acquisition, terminal costs should therefore be estimated and included in the asset's valuation. Additionally, *GFSM 2014* (para 10.68) guides that if an asset is disposed of before the costs of ownership transfer are completely written off, the remainder of these costs should be recorded as an other change in the volume of assets.

4. The issue of terminal costs is handled under this proposed recommendation rather than under GFSM Update research project 2.11 (*Recording of provisions and contingent liabilities*), which focuses on the use of provisions with respect to financial assets and liabilities.

Proposed Recommendations

5. This proposal makes the following recommendations regarding the treatment of terminal costs:

   a. **Maintain the *GFSM 2014* treatment of terminal costs being written off over the whole life of the asset**, rather than being recognized only at the end of the asset's life. At the time of acquisition, terminal costs should therefore be estimated and included in the asset's valuation.

   b. **Record a counterpart entry of provisions at the liability side when terminal costs are estimated and included in the asset's valuation.** This will be reduced as the actual terminal cost value is provided over the life of the asset to avoid the negative value at the end of the asset's life.

6. The proposed recommendation will be consistent with the draft *2025 SNA* treatment that include the expected terminal costs in the value of gross fixed capital formation and acknowledge a provision liability to avoid negative fixed asset values.

Rationale for Proposed Recommendations

7. The proposed recommendation aims to harmonize the treatment of terminal costs with the guidance in the draft *2025 SNA*. Although provisions in general remain outside the "core accounts" in the specific case of terminal costs the proposed recommendation includes the expected terminal costs in the

value of gross fixed capital formation and acknowledges a provision liability to avoid negative fixed asset values.

Proposed Text for GFSM Update

8. Review and revise text on terminal costs in *GFSM 2014* to be consistent with what is highlighted in the draft *2025 SNA* (paras. 11.233–11.235, 14.115, and 17.57-17.59). Some of the proposed language on terminal costs in the draft *2025 SNA* states that:

11.233 In principle, the value of depreciation cumulated over the life of an asset, once price changes are taken into account, should be equal to the difference between the acquisition and disposal values. In the case of assets with actual costs at the time of disposal, this means that depreciation should cover anticipated terminal costs. Terminal costs should therefore be written off over the whole life of the asset, regardless of the number of owners during the life of the asset. To avoid a negative value of the asset at the end of its life, the expected terminal costs are added to the value of the asset at the time the asset enters the balance sheet, with a counterparty entry of provisions at the liability side, both to be recorded in the other changes in the volume of assets and liabilities accounts. At the end of the life of the asset, the actual investment expenditures on terminal costs, which lead to a positive change in the value of the asset, are counterbalanced with a reversal of the flows in the beginning of the period, i.e., a decline in the value of assets with a concomitant decline of the related provisions, again recorded as other changes in the volume of assets and liabilities.

11.234 In practice, it may be difficult to predict terminal costs accurately. In that case, cumulated depreciation may not cover all the terminal costs. However, the full costs are still treated as gross fixed capital formation and any amount not already covered by depreciation during the life of the asset is written off at the time the costs are incurred as depreciation. This is a pragmatic recommendation and will lead to NDP being overstated over the time the asset is in use and understated in the year when the remaining costs are incurred.

11.235 There is further discussion on the treatment of costs of ownership transfer and terminal costs in chapter 17.