STATISTICS

GFSM 2014 update

Proposed Recommendations Document:

1.31 Treatment of the transfer of leased assets at the end of the lease period[1]

Summary Details

Links to Related Guidance/Discussion/Issue Notes and Latest Manuals: SNA/M1.23/13 – Action Point A.16 in Recommendations to Resolve Minor Action Points *Draft 2025 SNA* and *Draft BPM7* [2]	
Global Consultation(s):	SNA: September 2023
Discussions at the Advisory Expert Group on National Accounts (AEG) / Balance of Payments Committee (BOPCOM) Meeting(s):	AEG: March 2023
Discussions at GFSAC Meeting(s):	To be determined
Summary of Proposed Recommendations: The proposed recommendation is to clarify the recording of the transfer of the residual value of leased nonfinancial assets at the end of the lease period for financial leases and resource leases in line with the updates to the draft *2025 SNA* and *BPM7*.	

Background and Issues

1. The *GFSM 2014* recognizes three types of leases in macroeconomic statistics: operating leases, financial leases, and resource leases.[3] Each of these types of leases relates to the use of a nonfinancial asset. Fundamental to the distinction between the different types of leases is the difference between legal and economic ownership. The legal owner of nonfinancial assets is the institutional unit entitled by law and sustainable under the law to claim the benefits associated with the asset. In contrast, the economic owner of resources is entitled to claim the benefits associated with the use of the asset during the course of an economic activity by virtue of accepting the associated risks. In the case of operating leases and

[1] Previously was titled, “Possible alternative treatment of the transfer of leased assets at the end of the lease period”.

[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.

[3] Resource leases are agreements for the use of natural resources, such as land and radio spectrum. Operating leases are agreements for the use of all other nonfinancial assets (*GFSM 2014*, paras. A4.6-A4.9 and A4.16-A4.17). Financial leases are discussed in the main text of this Proposed Recommendations document.

resource leases, there is no change of economic ownership: the legal owner continues to be the economic owner.

2. In the matter of financial leases, there is a difference between economic ownership and legal ownership of the asset. Financial leases can apply to all nonfinancial assets, including natural resources under some circumstances. Financial leases are distinguished from other types of leases because substantially all risks and rewards of ownership are transferred from the legal owner of the nonfinancial asset, the lessor, to the user of the nonfinancial asset, the lessee (*GFSM 2014*, paras. A4.10 - A4.11 and A4.14). The economic nature of the arrangement is such that the lessor is deemed to provide a loan to allow the lessee to acquire the majority of risks and rewards of ownership, but the lessor retains legal title (ownership) as collateral for the loan. In other words, the lessee becomes the economic owner of the nonfinancial asset. Under a financial lease, the lessor records a loan to the lessee with which the lessee acquires the nonfinancial asset. From then on, the leased asset is shown on the balance sheet of the lessee and not the lessor; the corresponding loan is shown as an asset of the lessor and a liability of the lessee.

3. Under the guidance in *GFSM 2014* (paras. A4.13 and A4.15), the statistical treatment of financial leases is designed to capture the economic reality of such arrangements, by treating assets under a financial lease as if they were purchased and owned by the user. The lessee (economic owner) records the acquisition of the nonfinancial asset that is financed by an imputed loan. The loan is redeemed through payments during the contract and any residual payment at the end of the contract (or alternatively, by the return of the asset to the lessor). At the inception of the lease, the value of the asset appearing on the balance sheet of the lessee should be equal to the value of the loan owed to the lessor at that time. At the end of the lease term, the nonfinancial asset may be returned to the lessor to cancel the remainder of the loan, or a new arrangement, including the outright purchase of the asset, may be reached between the lessor and lessee. If the lease is for less than the expected economic life of the asset, the lease usually specifies the value to the lessor at the end of the lease or the terms under which the lease can be renewed. Any variation in the price of the asset from the value specified in the lease agreement is borne by the lessee.

4. Action Point A.16 of the *2008 SNA* Update discusses how to record the transfer of leased assets at the end of a lease in both the case where a natural resource is leased for an extended period of time and the case of financial leases, such as those used to record a public-private partnership (PPP) arrangement where the economic ownership of a nonfinancial asset change during the contract/lease period. The terms of the arrangements are usually such that conceptually recompense from the initial economic owner for the change of ownership of the assets to the new economic owner is bundled into the arrangements for payments during the contract/lease.

5. The draft *2025 SNA* (paras. 10.75 and 27.12), clarify the recording of a leased nonfinancial assets that is returned to the lessor at the end of the leased period. Conceptually, this is recorded as the building up of a financial claim during the lease period equal to the expected value of the nonfinancial asset at the end of the lease period. The financial claim is then extinguished at the time of the transfer of the leased nonfinancial asset. This approach is preferable where there is a high degree of certainty that the asset will be transferred and where the value of that asset at the time of the transfer will be significant. However, it is recognized that this may be difficult in practice in which case it is considered appropriate to record the transfer of the relevant product as current or capital transfers (depending on the nature of the product that was under the lease agreement).

6. Instances where a lease should be treated as a financial lease for the purpose of macroeconomic statistics was also clarified in the draft *2025 SNA* (para. 27.13). Although a financial lease will typically be for several years, the duration of the lease does not determine whether the lease is to be regarded as an operating or financial lease. It states that in some cases, "*a large complex such as an airport or even a building may be leased for short periods, perhaps only one year at a time, but on condition that the lessee takes all responsibility for the asset, including all maintenance and cover for exceptional damage, for example. Even though the lease period is short, and even though the lessor may not be a financial institution, if the lessee must accept all the risks associated with the use of the asset in production as well as the rewards, the lease is treated as a financial and not an operating lease and the asset appears on the balance sheet of the lessee with a corresponding loan extended from the lessor to the lessee*." In this situation, the treatment of the transfer of leased assets at the end of the leased period shall follow the same principles described in the previous paragraph.

7. Additionally, the draft *2025 SNA* introduced the split asset approach that is the subject of a separate GFS research project.[4] In this situation, the transfer of the residual value of the leased assets at the end of the leased period shall be proportional to the value of the assets recorded in the balance sheet of the lessee.

Proposed Recommendations

8. The proposed recommendation is that the *GFSM* framework be fully aligned with the draft *2025 SNA* and *BPM7.* The updated GFSM should therefore be revised to:

- Clarify that the preferred recording of the return of a leased asset should be recorded as the building up of a financial claim over the duration of the lease that is extinguished at the time of the transfer of the asset;
- Explain that where practical difficulty exists, it is appropriate to record the transfer of the residual value of the leased good as a current or capital transfer, depending on the nature of the product under the lease agreement;
- Adopt the *2025 SNA* guidance on instances where a lease should be treated as a financial lease[5]; and
- Clarify that in using the split asset approach to natural resources, the transfer of the residual value of the leased assets at the end of the leased period shall be proportional to the value of the assets recorded in the balance sheet of the lessee.

Rationale for Proposed Recommendations

9. The proposed recommendations aim to harmonize the updated GFSM with the draft *2025 SNA* and *BPM7*, a key objective of the *GFSM 2014* update process. The recommendations provide clarity on the recording of the transfer of leased assets at the end of the lease period.

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[4] Research project 2.19 "Accounting for natural resources and their exploration" will comprehensively address the implementation of the split asset approach to the recording of natural resources in GFS.

[5] GFSM Update Research Project 2.27 (*Relationship between GFS and IPSAS)* will investigate the provision of practical guidance on how to translate between the IPSAS leasing standards and the SNA / GFSM concept of financial and operating leases.

Proposed Text for GFSM Update

The main changes will be to adjust the text where necessary in the *GFSM 2014* (paras. 5.78, 5.129-5.132, 10.52, Box A4.1, Box A4.2, and A4.10–A4.65) to be in line with the revised guidance in the draft *2025 SNA* and the *BPM7*.