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Some Deliberations on the WTO Position Paper "Measuring Timeshare in the Tourism Satellite Account and Related Macroeconomic Frameworks"

Prepared by the Statistics Department
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SOME DELIBERATIONS ON THE WTO POSITION PAPER "MEASURING TIMESHARE IN THE TOURISM SATELLITE ACCOUNT AND RELATED MACROECONOMIC FRAMEWORKS"

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We would like to commend the World Tourism Organization for raising and developing the issue of measuring and recording of activity related to a time-share, which is challenging methodologically and worth to be addressed in the for coming new addition of the SNA, the Balance of Payments Manual, and in the Central Product Classification. We would like to share our understanding on how to record transactions associated with the time-share arrangements in the balance of payments statistics.

The major conclusions of the WTO Position paper are the following: (i) while the term "timeshare" covers a variety of arrangements, in all cases such arrangements should be treated in the same manner, following practical considerations; (ii) the timeshare arrangements should be treated as an intangible non-produced assets; (iii) the property income generated by this intangible non-produced asset should be recognized by the notional owner through the provision of the accommodation services, which represent an output of the activity of the notional owner; and (iv) the paper makes a proposal on the treatment of various fees to be paid by the timeshare holder.

To set up our view on how to treat time share in the balance of payments statistics, we would like to consider three options for the time share arrangements given in the WTO Discussion Paper[1]: a) the deeded ownership; b) the "right-to-use" type of ownership, and c) the membership system.

Our understanding of each type of arrangement is the following:

The deeded ownership type of arrangement gives the time-share holder a shared ownership of a vacation property (that is a tangible fixed asset produced as an output of the processes of production) over an indefinite period of time, when a time-share holder bears all market risks, holding gains and losses associated with this asset, and has the intrinsic right to exchange or transfer it to others.

The right-to-use type of arrangement gives the time-share holder a right to use/exchange/sell their time-share in a vacation property during a limited number of years, after which it reverts to the developer.[2]

[1] Tourism Statistics and the measurement of Timeshare. WTO Discussion Paper, March 2005.

[2] The US federal legislation (1984) gave owners of these type of time-shares the right to retain their units in the event the developer bankrupted. / See D. Reed *Your Hybrid Home, Conde Nast Traveler,* December 2005.

The membership system (Destination Clubs) gives the time-share holder a right to use any of a portfolio of vocation properties with certain characteristics for a defined time each year. The initial membership fee is usually refundable (80-100%) if a member quits.

Given the clear distinction in the economic nature of these three types of arrangements, we can not agree with the proposed approach to define them all in the same manner and would envisage the following treatment in the balance of payments statistics:

***The deeded ownership* to be regarded as a fixed asset (vacation property), a produced entity from which economic benefits may be derived over a period of time (*1993 SNA,* para 10.2).** The time share holder with deeded ownership owns the segment of property (calculated in terms of available time to use during the reference period) outright for an unlimited period of time, can sell, accumulates gains and losses, including catastrophic losses, or suffer uncompensated seizures over the life-time of the asset. This is as distinct from the acquisition of the right to use a building over the limited period, at the end of which the developer will retain the property (the *right-to-use* arrangement, see below). Moreover, as no cross-border sales of land and buildings occur in the system apart from some exceptions (embassies, military bases, international organizations, etc), the initial transaction is an equity investment of a non-resident in a notional resident unit, with the subsequent transactions to be undertaken between this notional resident unit and other resident units. Thus, within the balance of payments components, private, nonbusiness real estate investment (e.g., holiday and other residences owned by nonresidents for personal use or leased to others) is, in principle, included in *direct investment* (*BPM5*, para. 382).[3]

We agree with the WTO that *the right-to-use* type of arrangement can be considered as a lease of non-residential buildings, which is defined as an intangible non-produced assets (*1993 SNA,* para 10.130). Unlike the previous case, the property will belong to the developer at the end of the contract. On the other hand, as opposed to the rental arrangements, this arrangement entitles the time-share holders to engage in certain specific activities and to exclude other institutional units from doing so except with the permission of the owner (*1993 SNA,* para 13.62). In addition, the contract is transferable as economic benefit can be passed on to a third party independently of the provider of that benefit (*1993 SNA,* para 12.21).[4]

[3] For the timeshare properties it may be relevant, though, to apply definition of the foreign direct investment more consistently, considering effective voice in management and 10 percent ownership criteria. It might be relevant to suggest that the owners of the property are an associated group of investors who, as a group, have influence over its management.

[4] More indications for defining a newly created economic asset are given in the paper by R. Dippelsman and N. Mehle *Treatment of Mobile Phone Licenses in the National Accounts,* Income and Wealth, September 2003.

Therefore, initial payments for this type of contract would be classified in the balance of payments statistics as an acquisition of nonproduced nonfinancial assets in the capital account (*BPM5*, para. 312), with zero value, and a prepayment of services.[5]

Both the above arrangements involve shared ownership of an certain type of asset proved by the ability to resell and to derive economic benefits over the time.

The membership system implies that the holder pays a membership fee and annual dues for the right to use properties the world over with no right to sell and no attribution to the specific property. Initial membership fee is typically refundable should the member leave. Members normally do not incur losses and do not benefit from the price appreciation of the vocation property. This arrangement is non-transferable and resembles a prepaid vacation or rental paid by tenants, which would be treated as a purchase of building or housing services (*1993 SNA,* para 7.92). **The initial membership fee should be spread over the membership period and included into the balance of payments travel component with the drawing down of the trade credit asset that would be recorded in the balance of payments of the purchase country at the time of the upfront payment.**

As regard to recording the flow of travel services in the balance of payments statistics, there are no crucial differences among three types of arrangement; however there are differences in recording the second entry of the balance of payments transactions. These are summarised in Table I below.

Table I. Recording the time-share arrangements in the balance of payments statistics.

Type of Arrangement	Classification	Up Front Payment	Financial Asset	Annual Flow
Deeded Ownership	Ownership of land & buildings	FDI in notional unit In economy where the time share is located	Equity of the time-share holder (foreign direct investment)	Accommodation services in travel (imputed) and investment income (income on equity)
Right-to-use	Transferable right to use (amounts to economic asset)	Lease (zero initially, difference between market price and initial payments when transferred to the third party) Prepayment of accommodation	Advances (other investment, trade credit) Nonproduced nonfinancial intangible asset (capital account)	Accommodation services in travel (imputed based on initial cost)
Membership System	Nontransferable right to use (does not amount to asset)	Prepayment of accommodation	Advances (other investment, trade credit)	Accommodation services in travel (imputed based on initial cost)

[5] This treatment incorporates our understanding of the clarification proposed at the last meeting of the Advisory Expert Group on National Accounts, January 30–February 8, 2006, Frankfurt, and needs to be confirmed.

Treatment of annual fees

In addition to the initial payment, the holders of all three types of arrangements pay an annual fees. These will be annual management fees—(i) annual maintenance fees, (ii) property taxes, (iv) insurance, and (v) occasional fees (special assessment) for major repairs and refurbishing of a property. Vacation Clubs may also charge members a nightly fee while they occupy residence to cover operational expenses (e.g., maid service). The first three types of fees would be considered part of the intermediate consumption of the notional resident unit to produce accommodation service. The implication of the recognition of time share service is that the production occurs in the economy where the property is located, so the time share management is an input to that production process. As a result, the income receivable by the time-share holder would be net of the annual management fees. Therefore, accommodation services consumed by the time-share holder during the reference year would be partially received in kind (dividends receivable) and partially financed by the payment of the annual fee (other investment, currency and deposits).

Ooccasional fees (special assessment) for major repairs and refurbishing of a property would be included in gross fixed capital formation, and would be recorded in the case of the *deeded ownership* type of arrangement as an acquisition of equities by non-resident time-share holder. In the case of a transferable lease contract, these fees would be included in the costs associated with ownership transfer if transferred to the third party, or added to the prepaid accomodation otherwise. In the case Vacation Clubs, all types of annual fees would be added to accommodation services.
Attachment I contains an example for the recording the fees associated with the deeded ownership.

Conclusion

Given the clear distinction in the economic nature of the three types of time-share arrangements, we propose to define them on the case-by case basis and apply the specific treatment in the balance of payments statistics following the type of arrangement.

RECORDING OF THE TRANSACTIONS RELATED TO THE TIME SHARE ARRANGEMENT WITH THE DEEDED OWNERSHIP

Numerical example:

December 31, 2005. A (resident of Economy 1) buys share in Time Share (resident of Economy 2) for 100.

2006. A entitled to receive one week of accommodation worth 10 (market equivalent) and pay management fee of 5.

2007. A entitled to receive one week of accommodation worth 10 (market equivalent) and pay management fee of 5. The time share operator resells to C (a resident of Economy 3) on behalf of A and pays the amount after deducting the fee to A.

Jan 1, 2008. A sells share for 80 to resident of Economy 4.

BOP entries for economy 2:

2005
Portfolio investment—increase in liabilities—100 (either actual share in unit or notional share in property; end result is the same) (in rare cases could be direct investment)
Currency and deposits—increase in assets—100

2006
Services credits (accommodation, supplied in kind)—10
Imputed income debit (dividend, supplied in kind)—5
Currency and deposits—increase in assets—5

(Management fee is consumed by resident unit to produce accommodation service. Less satisfactory, but fits in with observed payment of 5 for management services:
Services credits (management services 5; accommodation 5)—10
Imputed income debit (dividend, supplied in kind)—5
Currency and deposits—increase in assets—5

2007
Services credits (accommodation, customer in Economy 3)—10
Income debit (Owner in economy 1)—5
Currency and deposits—increase in assets (reduction of 5 to Economy 1, increase of 10 from Economy 3)—5

2008
Reduction in PI equity liabilities due to revaluation—20
Reduction in PI equity liabilities to economy 2—80
Increase in PI equity liabilities to economy 4—80

Comments:

- Note *1993 SNA* papa. 10.2 definition of economic asset as entity from which economic benefits may be derived over a period of time. (underline added)
- Note: no cross-border sales of land and buildings occur except for embassies/ military bases/ international organizations etc.
- Implication of recognition of time share service (value 10) is that there is a time share production service producer in Economy 2, so the time share management is an input to that production process in Economy 2.
- Proposal results in service flows comparable with non-timeshare accommodation arrangements. (Otherwise, showing only 5 misses the service received by A in 2006; showing 15 double counts the final service and intermediate input).