



CHALLENGES OF PRODUCTION BOUNDARY FOR INTANGIBLE ASSETS

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Geneva, 23-25 April 2024

- Introduction
- Challenges of intangible assets held for sale.
- Challenges of intangible assets owned by SPEs
- Conclusions

INTRODUCTION



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GROWING IMPORTANCE OF INTANGIBLE ASSETS



Global Corporate Intangible Value (USD trillion)



Source: Brand Finance Global Intangible Finance Tracker (GIFT) 2023

- Despite sharp slumps in 2008 and 2022 due to international crises, the growing trend of intangible assets is straightforward.
- *„Concurrent with the digital revolution, intangible assets – such as R&D, intellectual property, brands, software, databases, organizational assets and skills - have grown in importance. They are now the cornerstone of any vibrant innovation ecosystem.”* Find: [Corporate Intangible Assets Grew to USD 61.9 trillion in 2023 \(wipo.int\)](#)

- Intangible assets can be classified as
 - *produced assets* – mainly discussed as GFCF,
 - *non-produced assets* – mainly discussed as tradable assets or taxes.
- Missing (explicit) link in recent and (planned) new manuals: drawing of production boundary in the case of intangible assets held for sale and/or owned by SPEs

CHALLENGES OF INTANGIBLE ASSETS HELD FOR SALE



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- Acquisition (disposal) of intangible assets is mainly considered in national accounts as
 - (dis)investment for *produced* assets and
 - acquisition (disposal) of non-produced non-financial assets for *non-produced* assetsunder capital account.
- Production account is only affected by the consumption of these assets (if it is possible).
- Sales and purchases of them are excluded from operating (COPC adjusted) incomes, and dividends paid from sales of them are (and will be in new manuals) recorded as withdrawal of equity (in the case of cross-border FDI).

If the seller is the *government* sector, for permits (mainly emission permits) another option is the recording as taxes on production (if the asset behind the permit is not an economic asset)

- **either** at the time of *issuance* (through other changes in volume under capital account in the sector of acquirer if these permits are traded),
- **or** at the time of *surrender* (through a financial liability of the government in exchange for payments by the acquirer).

- If these assets are held (bought and/or produced) for sale, this activity will be similar to merchanting of goods, services and securities – i.e., it will be **inside** the production boundary!
- In the case of merchanting of these assets they should be classified as **inventories**.
- In the case of (emission) permits the recording as taxes on production may lead to inconsistencies:
 - if financial liabilities of the government are recorded, price differences between times of issuance and surrender may result in asymmetries of flows between sectors and/or countries;
 - if permits are traded between countries, taxes on production will be paid in a different country from the one where the production takes place.

**CHALLENGES OF
INTANGIBLE
ASSETS OWNED
BY SPEs**



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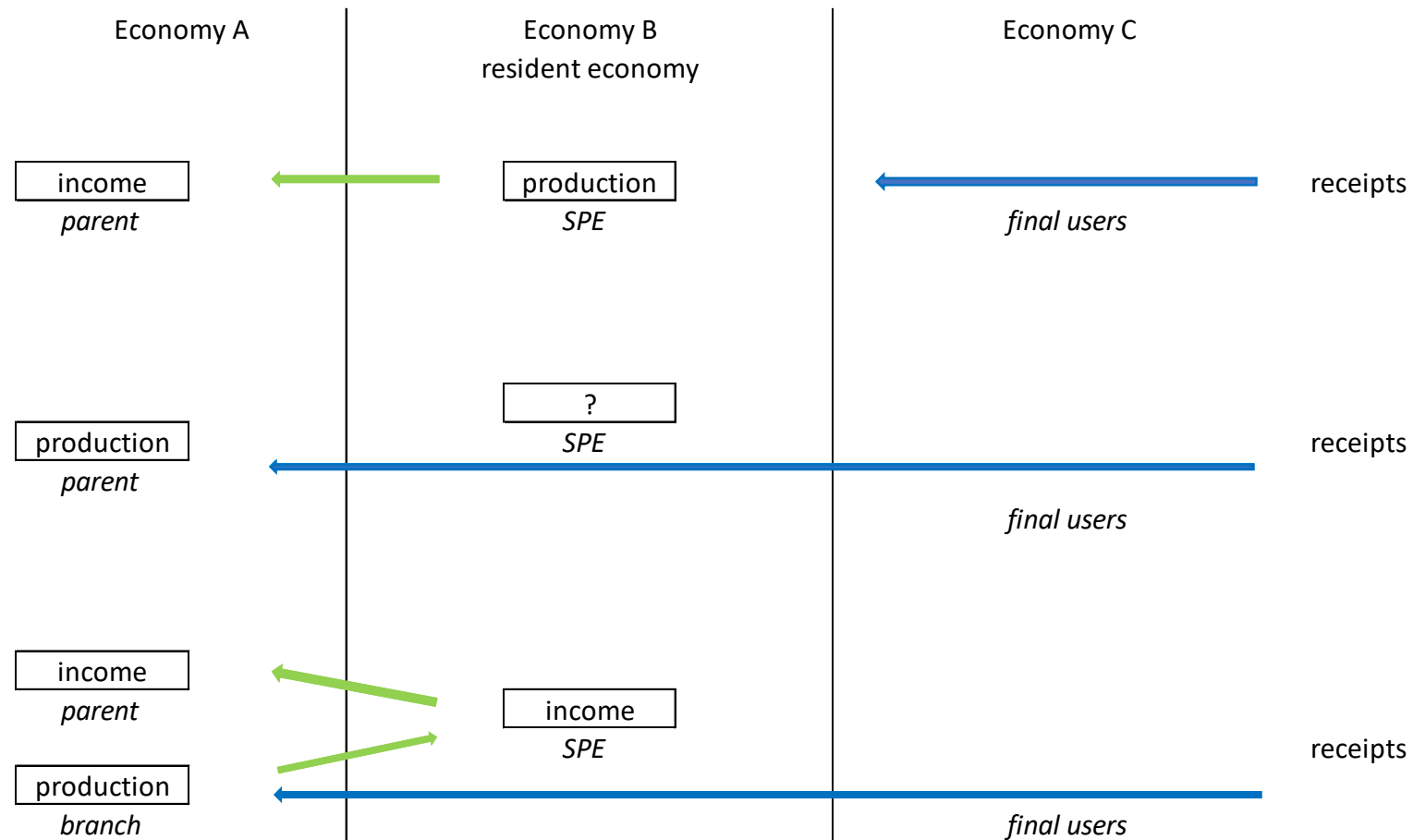
- Recent state of play as regards resident SPEs as legal owners of intangible assets is that they are considered also as economic owners of these assets – as a result, production through either investing or merchandising of them will be recorded on *production* account.
- It is rather a pragmatic than conceptual point of view since rerouting of ownership is considered as too difficult task.
- It is also proposed to exclude financial account and property incomes figures of SPEs from total balance of payments data since they distort the analysis of the resident economy.
- The consequence is that ***there will be production without assets and incomes*** → rerouting of ownership and production to non-resident economies (i.e., exclusion from resident production boundary) would be desirable, but it requires the modification of criteria for SPEs.

REROUTING OF OWNERSHIP BY SPEs 1.



- Rerouting should be carried out through (notional) branches to provide any incomes for SPEs.

Rerouting production of resident SPEs



REROUTING OF OWNERSHIP BY SPEs 2.



- Rerouting should be carried out for both direction to produce consistent data both nationally and internationally upon OECD BD4 criteria for SPEs.

Comparison of criteria of SPEs

	IMF TF definition	OECD BD4 criteria with rerouting only resident SPEs	OECD BD4 criteria with rerouting SPEs in both direction
Country GDP data aggregable at global level	<i>yes</i>	<i>partly</i>	<i>yes</i>
Country GDP data aggregable at regional level	<i>partly</i>	<i>partly</i>	<i>yes</i>
Bilateral asymmetry of trade	<i>no</i>	<i>partly</i>	<i>no</i>
Adequate distribution of production across countries	<i>partly</i>	<i>partly</i>	<i>yes</i>
Possibility of excluding economic ownership of non-financial assets	<i>no</i>	<i>yes</i>	<i>yes</i>
Possibility of "missing" or "excess" GDP at global level	<i>no</i>	<i>yes</i>	<i>no</i>
Possibility of "missing" or "excess" GDP at regional level	<i>yes</i>	<i>yes</i>	<i>no</i>

CONCLUSIONS



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- ***Production through both investing and merchandising of intangible assets should be included in the production boundary – except if the owners of these assets are SPEs.***
- It should be explicitly stated in manuals that sales and purchases of ***fixed*** assets are excluded from the calculation of operated incomes, and intangible assets may be classified as ***inventories*** (if held for sale).
- ***Atmosphere should be considered as natural resource*** similarly to international waters and radio spectra for which permits to use (i.e., tradable assets) can be established and ***the option of taxes on production may be abandoned***. This would be consistent mostly with the international trade of these permits.
- ***One criterion of SPEs included in IMF TF definition, called little or no physical production, should be restored to one included in OECD BD4, called little or no production.*** This change would establish the consistency between production, income, and financial account if financial flows and stocks of resident SPEs were excluded from total figures, at least for analytical purposes.

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