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G.9 Payments for Nonproduced Knowledge-Based Capital (Marketing Assets)

Prepared by the Globalization Task Team (GZTT)

INTERNATIONAL MONETARY FUND

G.9 Payments for Nonproduced Knowledge-Based Capital (Marketing Assets)[1]

Under both the System of National Accounts, 2008 (2008 SNA) *and the* Balance of Payments and International Investment Position Manual, sixth edition (BPM6), *marketing assets (trademarks, brand names, logos, etc.) are classified as nonproduced non-financial assets. Guidance for recording transactions related to these marketing assets is currently considered incomplete and inconsistent between both manuals. This guidance note proposes and discusses two options, namely Option I, to revisit the treatment of marketing assets as produced non-financial assets, a topic that was already included in the SNA research agenda (*2008 SNA*, Annex 4); and Option II, to maintain the status quo in the treatment but with more appropriate and consistent recordings in both the national and international accounts. Consultation within the Globalization Task Team, IMF's Committee on Balance of Payments Statistics (the Committee), and Advisory Expert Group (AEG) on national accounts has indicated a support for Option I, conceptually recognizing marketing assets as produced. However, it was accepted that the issues raised in the* 2008 SNA*, paragraph A4.53—the major reason for not treating marketing assets as fixed assets is due to the difficulty of measuring their value—have not yet been fully resolved. As part of the global consultation, it is proposed to enquire to what extent economies still face measurement challenges, which prevent capitalizing marketing assets.*

SECTION I: INTRODUCTION TO THE ISSUE

BACKGROUND

1. **Marketing assets are an important part of the modern global economy.** The addition of a logo or brand name to a good or service can add significant value. Firms commit expenditure and resources in order to differentiate their products from those of competitors and generate brand value. Marketing assets also form a key part of global value chains. Due to their intangible nature, they play a part in efforts to shift profits between units in a group of multinational enterprises.

2. **Both the *System of National Accounts, 2008* (*2008 SNA*) and the *Balance of Payments and International Investment Position Manual, sixth edition* (*BPM6*) classify marketing assets as nonproduced non-financial assets.** Nonproduced non-financial assets come into existence in ways other than through processes of production. Nonproduced assets are classified into three categories in both manuals: (i) Natural resources; (ii) Contracts, leases, and licenses; and (iii) Goodwill and marketing assets. As recognized in the *2008 SNA*, paragraph 10.164, these three types of assets have little in common except that they are all nonproduced and non-financial.

ISSUES FOR DISCUSSION

3. **While the basis for classifying natural resources and contracts leases, and licenses as nonproduced assets is clear, the basis for classifying marketing assets is not.** In fact, marketing

[1] Prepared by Joseph Haynes (Statistics Netherlands, primary drafter), Natalia Kuprianova (Central Bank of Russia), Thomas Alexander (IMF). The Guidance Note benefitted from comments by Ms. Jennifer Ribarsky (GZTT Secretariat, IMF). The work was undertaken under the supervision of Messrs. Michael Connolly and Branko Vitas (co-Chairs of the Task Team).

assets satisfy the conditions for being considered produced assets. Corporations make a deliberate effort to create marketing assets through investments and spending that are under the direct management and control of the corporation and are designed with a specific objective. Further, the marketing assets are used repeatedly in production to identify and differentiate the products, and therefore to establish price and market share. In this regard, marketing assets satisfy the SNA criteria of produced assets.

4. **During the *2008 SNA* update, at the AEG consultation,[2] there was unanimous agreement that marketing assets should continue to be classified as nonproduced, although the description of nonproduced was agreed to be inappropriate.** In that respect, marketing assets have been included as part of one of the four broad headings, "*Issues involving non-financial assets*", in the SNA research agenda. Paragraph A4.53 in the *2008 SNA* acknowledges that the major reason for not treating marketing assets as fixed assets is due to the difficulty of measuring their value.

5. **This Guidance Note discusses two major conceptual issues as to whether marketing assets should be maintained as being nonproduced non-financial assets or could be re-examined as produced non-financial assets.** The decision to record an asset as being the outcome of the production process or not determines how transactions relating to that asset are recorded in the national accounts and balance of payments. There are usually four broad types of transactions involving marketing assets:

- (i) payments for the use of a marketing asset (franchise fee), which do not involve a transfer of economic ownership of the underlying asset, rather the franchisee is given the right to use a marketing asset under set conditions;
- (ii) outright acquisition/sale of a marketing asset, which entails a transfer of economic ownership of the underlying asset;
- (iii) payments to sub-license a marketing asset, which can be considered as a license to reproduce, and may qualify as an asset if it satisfies the asset requirements; and
- (iv) creation of a marketing asset, if considered produced, then the creation needs to be recorded in the capital account as gross fixed capital formation.

SECTION II: EXISTING MATERIAL

6. ***BPM6* paragraph 13.17 and *2008 SNA* paragraph 10.198 note that marketing assets consist of items such as brand names, mastheads, trademarks, logos, and domain names.** The *2008 SNA* further states that a brand can be interpreted as far more than just a corporate name or logo. It is the overall impression a customer or potential customer gains from their experience with the company and its products. Interpreted in that wider sense it can also be seen to encompass some of the characteristics of goodwill such as customer loyalty.

[2] Microsoft Word - m3reportGoodwill.doc (un.org). The issue of marketing assets formed part of the research of the Canberra II Group during the drafting of the *SNA 2008*. *"The Canberra II Group were of the view that major elements of purchased goodwill and marketing assets are in fact produced, but difficulties involved in identifying the expenditures that might be treated as gross fixed capital formation are too great to enable a reclassification to produced assets."*

7. **The *2008 SNA* recognizes that marketing is a key driver of brand value and corporations invest in building and supporting their brands to differentiate their products and develop a positive emotional connection with their customers.** Despite this recognition, that marketing assets are the result of investment by corporations, the *2008 SNA* does not identify them as produced fixed assets. The reason is that their value is difficult to measure such that for pragmatic purposes marketing assets are classified as nonproduced assets.

8. **Since the last update of the SNA, there has been limited internationally coordinated research in this area.** Research by Statistics Netherlands in 2008 into intangible capital and economic growth[3] did include brand equity or marketing assets and showed that capitalization of certain advertising expenses is an option. Other research, such as Corrado, Hulten, and Sichel (2005 & 2009), have also taken a broader view of what should be capitalized and included marketing assets as capital formation in the U.S. economy.[4]

9. **Annex II gives an overview of the International Accounting Standards in relation to marketing assets.** This is an important consideration given the reliance on commercial accounting data as source information for economic statistics. IAS 38 defines the treatment of marketing assets in commercial accounting. This treatment is largely similar to that in *2008 SNA*, only those assets acquired separately, and which meet the requirements of recognition, may be recognised as an asset. Internally generated marketing assets are said to be indistinguishable from the costs of developing a business as a whole and expenditure should be expensed.

SECTION III: OPTIONS CONSIDERED

10. The guidance note examines the two proposed options and ensuing necessary updates required in the *2008 SNA* and *BPM6*.

OPTION I: MARKETING ASSETS ARE TREATED AS PRODUCED NON-FINANCIAL ASSETS

11. **If marketing assets are to be reclassified as produced assets, then they would require inclusion in the list of fixed assets in SNA under the category of IPP assets.** *2008 SNA* paragraph 10.117 already includes the subcategory "*other intellectual property products*" within IPP. The existing definition of intellectual property products should then be expanded with a new sub-category for marketing assets. Consequently, the current asset category under nonproduced assets of goodwill and marketing assets would become solely goodwill.

a. Payments for the Use of a Marketing Asset (Franchise Fee)

12. **If marketing assets are reclassified as produced assets, then there is no longer an element of property income to franchise fee payments.** The entire franchise fee payment would be recorded as output in the form of the sale of a service. *BPM6* would need updating to remove the advice in paragraph 10.140 to, where possible, record a portion of the transaction as primary income. *BPM6* paragraph 13.13

[3] Intangible capital in the Netherlands: Measurement and contribution to economic growth (cbs.nl)

[4] See https://www.conference-board.org/pdf_free/IntangibleCapital_USEconomy.pdf and https://www.nber.org/system/files/chapters/c0202/c0202.pdf

already states that payments for the temporary right to use or reproduce IPP are recorded as a service and marketing assets would fall under this.

b. Outright Acquisition/Sale of a Marketing Asset

13. **Like other produced non-financial assets, the outright acquisition or sale of a marketing asset would be recorded for national accounts in the capital account under gross fixed capital formation.** The value would be equal to the purchase/sale price. Despite not being subject to physical wear and tear, the value of marketing assets will decline over time. For this reason, consumption of fixed capital would require estimation for marketing assets. The parameters (life expectancy, depreciation profile) used to calculate consumption of fixed capital may differ between industries and sectors of an economy. Marketing assets in the technology sector may depreciate far quicker than the automobile industry. The issue of calculating consumption of fixed capital must be further researched.

14. **In the balance of payments, the acquisition/sale would be recorded in the goods and services accounts.** The current breakdown of items would need expanding to include a category for marketing assets, likely under other business services.

c. Sub-Licensing a Marketing Asset

15. **Payments to sub-license a marketing asset, can be considered as a license to reproduce, and may qualify as an asset if it satisfies the asset requirements.** The *2008 SNA* recommends that if a license allows the licensee to reproduce the original and subsequently assume responsibility for the distribution, support, and maintenance of the copies, then this is described as a license to reproduce and should be regarded as the sale of part or whole of the original to the unit holding the license to reproduce.[5]

d. Creation of a Marketing Asset

16. **If marketing assets are produced assets, then the creation of a marketing asset needs to be recorded in the capital account as gross fixed capital formation.** Where marketing assets are created within a firm then the value to record will not be immediately available. This is a similar situation to own-account R&D and capitalization could take the same approach of valuing the asset on the basis of costs of production.

OPTION II: MARKETING ASSETS ARE MAINTAINED AS NONPRODUCED NON-FINANCIAL ASSETS

17. **Should marketing assets be maintained as nonproduced, then consistent guidance is recommended in the SNA and BPM.** Currently, the *2008 SNA* and *BPM6* do not include full and consistent guidance on how to record marketing assets and transactions related to marketing assets. Actually, the issue is wider than just marketing assets as the *2008 SNA* and *BPM6* fall short of providing clear recommendation for transactions related to all nonproduced non-financial assets other than natural resources. For example, as part of the update of the *2008 SNA*, discussion on explicit payments for

[5] See *2008 SNA,* paragraph 10.100. See also OECD *Handbook on Deriving Capital Measures of IPP*. If the license to reproduce does not meet the asset requirements of the *2008 SNA,* then the costs of acquiring them are recorded as intermediate consumption.

acquiring certain types of information (called observable phenomena) when determining which costs should be included in the sum of cost approach when calculating the value of Gross Fixed Capital Formation (GFCF) in data.[6]

a. Payments for the Use of a Marketing Asset (Franchise Fee)

18. **The *2008 SNA* does not give specific advice on how to record franchise fees or more broadly how to record payments for nonproduced non-financial assets other than natural resources.** However, *BPM6* paragraph 10.140 does offer guidance on franchise fees, stating that "*Franchise fees, trademark revenue, payments for use of brand names, and so forth include aspects of property income (i.e., putting a nonfinancial nonproduced asset at the disposal of another unit) as well as aspects of services (such as the active processes of technical support, product research, marketing, and quality control). In principle, it would be desirable to separate the income and service elements. However, it may not generally be feasible to do so in practice; in which case, a convention is adopted that the entire values are to be classified as charges for the use of intellectual property. Such a convention would be taken as a starting point, but if additional information to make a split is available, the compiler should do so.*"

19. **Implementing a split recording, as mentioned in the *BPM6*, results in the issue of how property income earned on the basis of marketing assets should be recorded under the current SNA.** *2008 SNA* paragraph 7.107 states "*Property income accrues when the owners of financial assets and natural resources put them at the disposal of other institutional units…. Property income is the sum of investment income and rent*". In paragraph 7.108, the *2008 SNA* notes that "*Investment income is the income receivable by the owner of a financial asset in return for providing funds to another institutional unit*". Marketing assets are not considered as financial assets, and therefore, cannot be giving rise to investment income.

20. **Paragraph 7.109 of the *2008 SNA* defines rent as the income receivable by the owner of a natural resource; and in paragraph 10.15, the definition of natural resources clearly excludes marketing assets, such that they will not give rise to rent.** Therefore, compilers are left at a dead-end for how to record the property income element of any transaction.

21. **Like the *2008 SNA*, *BPM6* offers no specific recording option for property income related to marketing assets or more broadly to nonproduced non-financial assets other than rent.** A footnote to paragraph 2.14 of the *BPM6* notes that "*allowing another entity to use nonproduced nonfinancial assets gives rise to rent*"; while in paragraph 11.85, it is clear that rent is related to natural resources. While *BPM6* states that a portion of franchise fees, etc., should be recorded as property income, it does not specify in which sub-component.

22. **The absence of a further category within property income (such as two categories of rent: (i) rent on natural resources and (ii) rent on other nonproduced assets) means it is not possible to record payments for the use of marketing assets as a form of property income.** It is also necessary to consider why *BPM6* defaults to recording the whole transaction as charges for the use of intellectual property when a split is not possible. If the underlying asset is partially or entirely not produced, it may be

[6] See Guidance note on Data https://unstats.un.org/unsd/nationalaccount/aeg/2021/M15_7_4_Recording_Data.pdf

more appropriate to default to recording the entire transaction as property income. It is relevant here to consider how much if any of a service element is incorporated within the franchise fee. As alluded to in the appendix, a franchise fee could involve a service element or not. The option should be available to record the entire franchise fee as property income where there is no element of a service being provided.

b. Outright Acquisition/Sale of a Marketing Asset

23. **When a marketing asset is traded as a market transaction, it is recorded in the capital account as the acquisition/disposal of a nonproduced asset, for which the *2008 SNA* (paragraphs 10.196–10.199) recognizes that there are issues in identifying the pure sale of a marketing asset.** Most transactions will involve an entire unit where the marketing asset will be hidden within the transaction. In which case, it will not be possible to separately record a transaction in marketing assets. Instead, any value to the transaction in excess of the value paid for an enterprise as a going concern would be recorded as goodwill and marketing assets.

24. **Given the interest in marketing assets it may be desirable to include a subcategory to goodwill and marketing assets so that transactions in marketing assets, where separately identifiable, can be recorded.** Under the current *2008 SNA* guidance, when a marketing asset is sold individually and separately from the whole corporation, this will be recorded as a transaction in goodwill and marketing assets.

25. **In the balance of payments, transactions in nonproduced assets are covered in the capital account.** When marketing assets are sold separately from the entity that owns them, they are recorded as the acquisition and disposal of nonproduced non-financial assets between residents and nonresidents.

c. Sub-Licensing a Marketing Asset

26. **The treatment for sub-licensing would be considered as an acquisition/sale of part or whole of the nonproduced marketing asset to the unit holding the license to reproduce and the license is considered as an asset.** The transaction would be recorded as a transaction in nonproduced assets and recorded in the capital account

d. Creation of a Marketing Asset

27. **If marketing assets are nonproduced, then they are not brought into existence via the production process such that there is no specific recording needed for the creation of a marketing asset.** The costs incurred would be recorded simply as intermediate consumption and wages in relation to the production activity of the unit. This is a continuation of the current recording practice.

SECTION IV: RECOMMENDED APPROACH—CONCEPTUAL ASPECTS

28. **On a conceptual basis, the AEG and Committee members considered that marketing assets are produced assets.** However, concerns were raised as to the extent to which a reclassification could be practically implemented. Discussion within the AEG, the Committee, and GZTT was clear that many members thought paragraph A4.53 in the *2008 SNA* still remains relevant today. Therefore, the AEG and the Committee agreed with the GZTT proposal to, as part of the global consultation, obtain countries' views on the feasibility of recording marketing assets as produced non-financial assets.

29. **If the outcome of the global consultation is to endorse the proposal to treat marketing assets as produced nonfinancial assets, then the intellectual property products category needs to be expanded.** The GZTT proposes to create a new subcategory to separately identify marketing assets within the intellectual property products category.

30. **Specific methodological guidance for the recording of fees for the use of marketing assets is needed.** Pending the outcome of the global consultation and feedback on recording of marketing assets as produced, *BPM6*, paragraph 10.140, will be updated in line with the fact that marketing assets are produced assets and that payments for use are treated as services. Furthermore, if marketing assets are produced assets, then acquisitions or sales of marketing assets are included in the capital account in the national accounts and the goods and services account in the balance of payments. These should be made explicitly clear.

31. **If the status quo is maintained, then clearer guidance on how best to record transactions is needed.** The GZTT did not come to a consensus view on how to best record transactions in the event that marketing assets continue to be recorded as nonproduced. Options could be to record transactions related to marketing assets as the following: (i) record the entire amount in services (the default solution in *BPM6,* if a split is not possible), (ii) record the entire amount in income, or (iii) split the recording between services and income (the flexible option in *BPM6,* if information is available).

32. **The GZTT discussed the possibility that regardless of the classification of marketing assets (produced or nonproduced) transactions related to them should be recorded as output (services).** This is in recognition that natural resources are truly nonproduced assets whereas marketing assets are considered nonproduced because of a pragmatic choice. Thus, transactions related to payments for the use of marketing assets should be recorded following the conceptually correct approach (i.e., recorded in services recognizing the fact that if compilers had the source data to record marketing assets as produced, then they would). This would in effect be a clarification of the current approach where marketing assets are considered as nonproduced, and GFCF is not recorded for the creation of the marketing asset, but transactions related to the assets are typically recorded as output (services).

33. **The other viewpoint shared amongst some GZTT members is to record the entire transaction as property income.** Furthermore, there were split views regarding how much flexibility should be allowed in terms of recording transactions or portions thereof as output (services) or property income. Some members felt that the issue of consistency across countries should be given priority, while others wanted flexibility to allow for the most accurate recording. In the event that it is not possible to divide the transaction into service and property income elements, then the option given to the compiler should be to choose either to record the whole fee as the payment for a service or as property income based on the characteristics of the transaction under discussion.

34. **Many GZTT, AEG, and Committee members considered that the definition of property income could be expanded to include a subcategory for payments for nonproduced non-financial assets other than natural resources.** Rent could be subcategorized into rent on natural resources and rent on other nonproduced nonfinancial assets.

35. **Additionally, the GZTT favored that a specific subcategory to goodwill and marketing assets be introduced.** This will enable recording transactions involving separately identifiable marketing assets.

36. **The GZTT debated the treatment of the payments to sub-license a marketing asset.** The conclusion was that sublicensing (where economic ownership is transferred) should be recorded as the sale of part of the original. This avoids any issue of double counting. A decision on transfer of economic ownership would follow existing guidelines in the SNA.

37. **A further conceptual issue raised was the recording of transactions related to marketing assets between units in the same MNE—**for example, global royalties related to a marketing asset flowing to a unit in a country with a favourable tax system. Annex III gives further details on this example, where it outlines two real world transactions in marketing assets.[7] Consideration of this point is undertaken in the guidance note on the issue of economic ownership of IPP assets (G.5).

SECTION V: RECOMMENDED APPROACH—PRACTICAL ASPECTS

38. **The practical aspects of the proposed options will be tested by way of global consultation, a way-forward unanimously supported by the AEG and the Committee.** This would inform whether capitalization of marketing assets and its recording are less challenging for economies.

39. **A decision to capitalise marketing assets should learn the lessons from the capitalization of R&D in *2008 SNA* and *BPM6*.** Though R&D statistics had the advantage of being deeply embedded in the broader statistical system before their capitalization, it is important to consider how capitalization would further explain the role of associated capital services in value chains and production processes.

SECTION VI: CHANGES REQUIRED TO THE *2008 SNA* AND OTHER STATISTICAL DOMAINS

[Changes to the *2008 SNA* and the *BPM6* would be required to reflect any proposed recommendations (to be drafted later).]

Questions for Discussion:

1) *Do you consider that, on a conceptual basis, marketing assets meet the* 2008 SNA *and* BPM6 *definitions of produced assets?*

2) *If marketing assets are produced (i.e., option 1) is preferred, do you favor:*

   (i) creating a new subcategory of produced assets within intellectual property products for marketing assets?

   (ii) the recommended treatment of sublicensing marketing assets as a type of license to reproduce; thus, for those license that satisfy the asset requirement, treat as a sale of part or whole of the original to the unit holding the license to reproduce?

3) *If marketing assets are treated as nonproduced (i.e., no change in the standards, Option 2), should transactions related to marketing assets be recorded:*

a. *by splitting them between services and income (the flexible option in* BPM6*, if information is available);*

b. *in services (the default solution in* BPM6*, if a split is not possible);*

c. *in income?*

4) *If marketing assets should continue being treated as nonproduced, do you consider that the definition of property income should be expanded to include a subcategory for payments for nonproduced non-financial assets other than natural resources?*

Annex I. Referenced Documents

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Annex II. Marketing Assets in Business Accounts

INTERNATIONAL ACCOUNTING STANDARDS AND MARKETING ASSETS

1. International Accounting Standards (IAS) 38 [8] outlines the commercial accounting treatment of intangible assets. Given commercial accounts are a key source of data any treatment in BPM and SNA which deviates too much from the IAS can lead to issues in obtaining reliable estimates.

2. Marketing rights, trademarks, and trade dress (unique color, shape or package design) are listed in IAS 38 as examples of intangible assets.

3. An intangible asset is recognized in the accounts if it must be probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

4. However, IAS 38 distinguishes between internally generated intangible assets and those acquired separately. Internally generated intangible assets should not be recognized in the accounts. The costs incurred are indistinguishable from the costs of developing a business as a whole. The same argument applies for subsequent expenditures incurred in connection with such tangible assets even when acquired externally.

5. Marketing assets separately acquired may be recognized as an asset under IAS 38 if they satisfy the general recognition and measurement conditions.

6. Advertising and promotional activities are specifically identified as costs that should be expensed and not capitalized in IAS 38.

[8] IAS 38 — Intangible Assets (iasplus.com)

Annex III. Examples of Marketing Assets

FRANCHISING A FAST-FOOD RESTAURANT

1. According to the 2019 annual report, 93 percent of the restaurants within the McDonald's Corporation are franchised, and franchise fees account for roughly 55 percent of the corporation's revenues.

2. The franchise fees cover a variety of income and services that, in principle, might include use of some nonproduced nonfinancial assets. For example, the franchise fee provides the franchisee with the benefits of using the McDonald's brand name and trademark, which the SNA classifies as goodwill and marketing assets. The franchise fee also includes advertising, management, and oversight of franchise operations that the McDonald's Corporation provides to the franchisees, all of which look like services under the SNA.

3. In principle, a compiler may wish to split the franchise fees into services (advertising and management services) and property income (use of marketing assets). This is the current approach as alluded to in *BPM6,* paragraph 10.140. Such a split would be made based on specific source information where available or using a model or assumption.

TRADEMARKS IN AN MNE

4. Trademarks can be held by one unit of the group which then charges royalty fees to other units for use of the trademark. An example of this is given in de Haan and Haynes 2018.[9] The Nike group has placed ownership of some of its trademarks in a Dutch unit. This unit subsequently allows for other units in the global group to use the IP and trademarks in return for fees. Where the trademark is held by an SPE, it is difficult to argue that there is a service element to the fees. The entire fee looks to be the payment for the trademark, a non-produced asset.

[9] euronaissue1-2018-article1.pdf (europa.eu)