

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

## **Discussion paper on Non-Exchange Transfers**

### **Cover Note**

#### **Objective**

- 1 The objective of the session is to discuss and approve a feedback statement in response to the consultation on EFRAG's Discussion Paper *Non-Exchange Transfers* and discuss possible ways forward for the research.

#### **Background**

- 2 The Discussion paper (DP) addresses concerns regarding the lack of guidance in IFRS Standards on the accounting for specific transactions where one entity gives (or receives) value without receiving (or giving up) approximately equal value in return. It proposes a comprehensive model to account for these transfers and argues that, for some of them, a notion of 'societal benefit' could be used to justify progressive recognition over a period of time.
- 3 The discussion paper was published for consultation in November 2018 and comments were requested by 30 April 2019.

#### **Summary of comment letters received**

- 4 EFRAG received comment letters from 13 respondents representing national standard-setters, preparers, professional and other organisations.
- 5 Some respondents agreed that non-exchange transfers (NETs) have different characteristics but a majority did not support developing an approach aiming to address comprehensively all non-exchange transfers.
- 6 Some respondents suggested that the focus should be on considering the effects of the revised conceptual framework on NETs and in particular whether and how it helped address identified issues.
- 7 Some respondents did not identify issues with the current accounting for grants and suggested that identified issues such as the accounting for levies could be addressed as part of the IASB research on provisions.
- 8 Some respondents raised concerns with the proposed scope exceptions in particular income tax, transaction with related parties and with shareholders. Those respondents did not agree with the scope exemptions as they considered that these were the areas most in need of guidance.
- 9 Lastly, some respondents considered that the broad references to 'societal benefit' and the proposed approach to non-exchange transfers could have unintended consequences.

## Non-Exchange Transfers – Cover Note

- 10 Regarding the 4-step approach suggested in the DP:
- (a) Some respondents considered that there was lack of conceptual basis. In their view, the criterion of recognition of NETs income and expenses on a 'recurring basis' was not conceptually developed and it looked like a rule-based rather than principle-based approach.
  - (b) Some considered that the concept of 'societal benefit' was not precisely defined.
  - (c) One respondent, while supporting the reference to 'societal benefit', questioned whether straight-lining the recognition of income or expenses (for recurring transactions) provided useful information for users.
  - (d) Mixed views were expressed as to how transactions containing both exchange and non-exchange components should be addressed.
- 11 Two respondents also questioned whether and how the proposed model could apply to non-for-profit and public sector organisations.

### Outreach events

- 12 The DP was discussed at the International Forum of Accounting Standard Setters (IFASS) meeting in March 2019. Respondents noted that the treatment of some of the transactions discussed in the DP such as levies and government grants may require standard-setting, but many expressed doubts that a comprehensive approach would be helpful. Some concerns were expressed about the clarity of the proposed definition of non-exchange transfers, which some participants felt could apply to a wide number of transactions. Additionally, some participants expressed reservations that the 'societal' benefit notion would provide a conceptual basis to justify progressive recognition, while others noted that the proposed model could provide a pragmatic solution.

### EFRAG Secretariat proposed actions

- 13 Based on the feedback received, the EFRAG Secretariat does not suggest to further develop the research on NETs at this stage.
- 14 The feedback received will be shared with the staff of the IASB and published in a feedback statement

#### Questions for EFRAG TEG

- 15 Does EFRAG TEG have comments on the feedback statement?
- 16 Does EFRAG TEG suggest any additional course of action for the EFRAG Secretariat?

### Agenda Papers

- 17 In addition to this cover note, Agenda paper 02-02 – Feedback Statement on EFRAG's DP on *Non-Exchange Transfers* has been provided for the session.