

EFRAG
35 Square de Meeûs
B-1000 Brussels

10 May 2019

Dear Sir or Madam,

Re: Discussion Paper Non-Exchange Transfers – A role for Societal Benefit?

BusinessEurope is pleased to provide comments on the EFRAG Discussion Paper Non-Exchange Transfers – A role for Societal Benefit? (the DP).

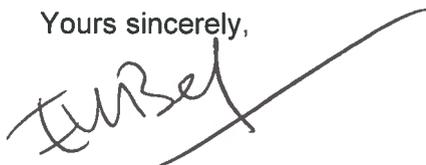
As preparers, we were strongly opposed to the proposals in the draft interpretation of IFRIC 21 Levies and its subsequent publication. We were, and remain to be, of the opinion, that this interpretation results in information which is not as relevant or useful as it could be. Furthermore, we acknowledge that IAS 20 on accounting for government grants has not been reviewed recently by the IASB. Finally, we are aware that the publication of the new Conceptual Framework may raise the question of the potential conforming of these two standards with the Board's latest conceptual approaches.

However, now that preparers and users have suffered the disruption caused by the changes introduced by IFRIC 21, and we are not aware of any persistent major problems which require to be solved, we do not think that this issue is of sufficient importance to warrant immediate attention. We think that the IASB should consider this subject in the course of its work on the maintenance of IFRS and its conformity with the Conceptual Framework, but that there is no urgency to do so.

Having said that, we think that the discussion and the approach proposed in the DP have merit, and we therefore provide some responses to the questions posed in the DP. These are included in the Appendix to this letter.

If you require any further information or explanation on these matters, please do not hesitate to contact us.

Yours sincerely,



Erik Berggren
Senior Adviser
Legal Affairs Department

APPENDIX

EFRAG invites comments on all matters in this DP, particularly in relation to the questions set out below. Comments are more helpful if they: a) address the question as stated; b) indicate the specific paragraph reference, to which the comments relate; and/or c) describe any alternative approaches EFRAG should consider.

All comments should be received by 14 May 2019.

QUESTION 1 - OBJECTIVE OF THE PROJECT

In Chapter 1, the DP presents arguments to support developing an accounting treatment for Non-Exchange Transfers as defined in the document (NETs). NETs include, but are not limited to, levies and Government grants. Although the 2018 Conceptual Framework has introduced changes that may address some issues around the treatment of levies, the DP argues that there is need to provide a conceptual basis and a practical approach to accounting for NETs.

Q1.1 Do you agree that NETs have differentiating characteristics that warrant the development of a specific accounting treatment?

We agree that NETs have characteristics that warrant a different accounting treatment from those currently imposed by standards. The latter are often perceived as counter-intuitive and unhelpful.

QUESTION 2 - SCOPE OF THE PROJECT

In Chapter 2, it is suggested to explore an approach for NETs that are either non-voluntary transfers, or voluntary transfers except those identified in paragraphs 2.14 to 2.21. Chapter 2 describes what is the nature of NETs and what factors would guide an entity in assessing whether a transaction is or contains a NET.

Q2.1 Do you agree with how the scope has been defined? If not, is there a different scope that would provide a better basis for developing a comprehensive approach?

Q2.2 Is the definition of NETs and the guidance around the assessment of their existence sufficiently clear and operational?

Q2.3 Do you agree with the proposed exclusions from the project? In particular, do you think that the approach could be fit also for income taxes?

Q2.1 and Q2.3 The scope of the DP does not actually appear to be defined as such in the DP. Paragraph 2.2 taken together with the exclusions from scope in paragraphs 2.14 to 2.21 appears to play this role.

While the exclusions are acceptable in the context of a DP which is aimed primarily at the accounting for levies and government grants, we think that any development towards



standard-setting activity by the IASB must be accompanied by comprehensive consideration of several or all of the areas which the DP has excluded from scope, in order to ensure that any subsequent accounting requirements are consistent with the body of IFRS.

We think that the approach to accounting for income taxes in interim periods under IAS 34 is not inconsistent with the 4-step approach: income taxes could be seen to satisfy the conditions of steps 2 or 3. Application of the expected annual tax rate to measure the expense in the interim period could be seen as a method consistent with paragraph 4.8 of the section on the role of uncertainty.

Further we think the paper should include more elaboration on the reasons for exchanges of unequal value and how this value should be assessed. The notion in 1.11 seems to be too superficial when it concludes that an exchange of unequal value in a voluntary transaction implies "societal benefits". For example, in the field of start-up financing, there are cases where start-ups grant discounts to larger investors that are commercial enterprises. The reasons may be various. Sometimes the name of the investor may be used to attract further investors (where one might conclude that in substance this is an exchange of equal value). In other cases, however, there does not seem to be such a rationale, i.e. the start-up entity has no obvious benefit from granting a discount to specific investors while others are not being granted it. It seems, however, far-fetched to conclude that this implies societal benefits. Also, the discussion in 2.5 (relating to supplier pricing policy) does not seem to fit to the example above.

Q2.2 The definition of a NET is given in paragraph 2.1 as "transfers where an entity either receives value from another party (or gives value to it) without directly giving (receiving) approximately equal value in exchange." We think that, when taken in conjunction with the explanations in paragraphs 2.3 to 2.5, this definition is sufficiently clear.

QUESTION 3 - TRANSACTIONS THAT INCLUDE A NET

The DP suggests that a transaction could include a normal commercial exchange and a NET. Paragraph 2.11 of the DP illustrates three possible methods to allocate the total consideration.

Q3.1 Which of the methods presented in paragraph 2.11 do you support, and why?

Although the simplicity of 2.11a is attractive, an allocation approach consistent with that of IFRS 15 would provide more relevant information about the commercial transaction involved and would offer the advantage of being consistent with IFRS 15.

QUESTION 4 - APPLICATION OF STEP 2

The DP (paragraphs 3.6 to 3.13) proposes that when transfers in scope arise as a consequence of an identifiable underlying activity, the transfer is recognised when the activity occurs. However, in some case (for instance, the purchase of a depreciable asset) the activity affects the financial position and financial performance of the reporting

entity at different times. The DP illustrates two possible approaches to recognising the transfer.

Q4.1 Which of the approaches presented in paragraph 3.13 do you support, and why?

In our view the underlying activity occurs at the time of the event which makes the NET inevitable (that is, we prefer Option 1). In the example of the asset purchase tax in Example 4, it is the bank transfer for the asset purchase that triggers the tax, and this is the underlying activity (or the obligating event). The impact of that transaction on profit and loss should depend on the nature of the triggering event and how it is treated under other relevant standards, for example, if the event is the purchase of an asset, as in Example 4, the cost of the NET forms part of the cost of the asset and should be treated within the scope of IAS 16.

In Example 5, we agree that the triggering event for the right to receive the grant is the purchase of the asset and the grant should be recognised at that time. As far as the effect on profit or loss is concerned, we think that this should be linked to the nature and the purpose of the grant: a grant to purchase an asset should affect the profit or loss in the same manner as the related asset and a grant to assist an item of expense should be recognised in P/L in the same manner as the expense.

As far as the accounting treatment of the credit as deferred income or a reduction in the cost of the asset is concerned, we are undecided as to which of these two offers the most useful information. Both of these are currently permitted under IAS 20 and we have no information about the extent to which either is applied.

QUESTION 5 - APPLICATION OF STEP 3

The DP (paragraphs 3.15 to 3.22) proposes that NETs that do not fall in either Step 1 or 2 of the approach explored, and are recurring, are recognised progressively between two payment dates. The rationale for this is that the entity is sharing or contributing to a 'societal' benefit. This is assumed to occur in a constant pattern over the period of time, which results in a linear recognition pattern.

Q5.1 Do you agree with the outcome? And do you believe that the notion of 'societal benefit' provides a conceptually adequate basis to support the outcome?

We agree with this outcome.

While we are unsure whether the notion of "societal benefit" is conceptually robust, the outcome of this approach provides more useful and relevant information than IFRIC 21 in the context of an entity which is a going concern and a will have to settle a recurring NET.

To concentrate on the pure legal and mechanical aspects of the levy, as is the case with IFRIC 21, appears to us to ignore the underlying fundamental economic nature of the transaction. A levy which recurs at least on an annual basis seems to us to be very similar in purpose and nature to an income tax (whose purpose is to provide reliable and



recurring finance to the levying body), although the basis and the collection mechanism are different. An entity has realistically no possibility of avoiding most levies on a short-term basis, and in the long term has chosen to exercise its activity in a particular jurisdiction in full awareness of the benefits and obligations, both specific and general, which that choice brings with it.

QUESTION 6 - THE ROLE OF UNCERTAINTY

Some of the transfers in scope are subject to conditions. The DP (paragraphs 4.3 to 4.13) discusses if in the presence of conditional uncertainty, recognition of expense-generating and income-generating transfers in scope should be subject to a symmetrical or asymmetrical approach.

Q6.1 Do you think that the recognition of expense-generating and income-generating transfers should be subject to a symmetrical or asymmetrical approach? Please explain your answer.

Our preference is to set a higher threshold for the recognition of an “income” NET than to an “expense” NET. This would be consistent with current practice, such as, for example, reimbursements under IAS 37 or the notion of “constraining estimates of variable consideration” in IFRS 15.

* * *