Proactive – Transactions with Governments

Project update

Objective

1 Following the completion of the EFRAG proactive agenda consultation, it was agreed to add a project on transactions with Governments.

2 Given the extensive role played by Governments in the economy, transactions with Governments may include a widespread range of transactions. EFRAG Secretariat believes that it is important to define rigorously the scope to manage effectively the project.

3 In June, EFRAG TEG discussed a revised plan. It was tentatively agreed that the project would focus on transactions with the following characteristics:

(a) The transactions are imposed, which means that an entity does not have the ability to avoid them; or

(b) The transactions are non-reciprocal (or it is not possible to assess if equal values are exchanged).

Using one or the other criterion would result in slightly different scope, in particular with reference to Government grants.

4 At this stage, the project scope does not include

(a) Transactions between parties where the Government only regulates prices; and

(b) Non-reciprocal transactions between private parties.

5 The tentative scope exclusion for transactions under 3(a) is mostly due to practical reasons: the IASB has an active project on Rate-regulated activities and EFRAG has already performed significant work on the topic. We will however consider the input from the Rate-regulated activities project.

6 The tentative scope exclusion for transactions under 3(b) is due mostly to project management reasons. While there is no clear conceptual reason to exclude non-reciprocal transactions with parties other than Governments, this would extend the scope to transactions with shareholders or under common control. EFRAG Secretariat is concerned that this may make the project too complex.

7 EFRAG TEG suggested to select levies as a case study and develop a paper to illustrate the issues and how the project could address them. The issue paper will be presented at the September TEG meeting.

Why are we looking at levies?

8 Levies meet both characteristics in paragraph 3 as they are imposed and settled to Governments. Their accounting treatment is regulated under IFRIC 21 *Levies*, which includes the following guidance on the recognition of a liability to pay levies:

(a) If the obligating event occurs over a period of time (for example, the generation of revenue), the liability is recognised progressively over time; and

(b) If the obligating event occurs at a point in time (such as a requirement to be in business at a certain date), the liability is recognised at that point in time.

9 In both cases – progressive or immediate recognition of the liability - the Interpretation does not specify when and how the cost of the levy should be recognised.

10 During the endorsement debate, some constituents expressed concerns that the Interpretation would not provide the most relevant information when the date of activity is a point-in-time, especially (but not only) when the measurement period refers to a prior year. Examples include:

(a) Example 1: the measurement period is year N-1, but the activity date is the date when revenues are recognised first in the following period[1]. Under the Interpretation, the liability is recognised in full at the beginning of the following period (or more precisely, when revenue is first generated) because the obligating event in the law is the generation of revenue;

(b) Example 2: the date of activity is the last day of the reporting period[2]. Under the Interpretation, the liability is recognised in full on the last day of the reporting period, because the activity that triggers the payment is being in operation on the last day.

11 In these cases, some constituents take exception with the requirements because they believe that these are annual levies related to a reporting period and should be recognised over the year, regardless of the legal reference to a specific date. These constituents believed that the activity date should not necessarily coincide with the period of recognition.

12 These arguments exemplify well some of the more general concerns expressed about the accounting treatment for transactions with Governments, especially around the timing and pattern of recognition of assets/liabilities and income/expenses.

13 The issues paper will consider if and how the characteristics in paragraph 3 may play a specific role in the context of the current (and potential future) Conceptual Framework and if they may justify a different accounting approach. The next step will be to apply the input on levies to the wider population of transactions in the scope.

14	Do EFRAG Board members have questions or comments on the project and its current status?

[1] This scenario is similar to the French 'imposition forfaitaire sur les entreprises de réseaux' which is enacted if, as at 1 January, an entity possesses railway equipment used in the prior year to transport passengers.

[2] This scenario is similar to the UK bank levy, which is enacted if, as at the end of a period of account, an entity qualifies as an entity subject to the levy.