EFRAG Research project on Transactions other than Exchanges of Equal Value – Approach revised

Issues Paper

Objective

1 The objective of this session is to present a comprehensive model for the accounting of Transactions other than Exchanges of Equal Value (TEEV). This paper incorporates the comments received during the discussion of the project at the December 2016, February and July EFRAG TEG meeting.

2 The paper includes a revised scope, an approach that applies both to cost-generating and revenue-generating transactions in scope and illustrates how the approach applies to some transactions. While the focus is mostly on levies and Government grants, the EFRAG Secretariat has made an effort to identify a scope of application on conceptual basis and not by reference to a list of transactions.

3 The premise of the project is the certain transactions pursue a 'societal objective' which could justify an accounting treatment different from the treatment applied to purely commercial transactions. In some cases, the accounting outcome could be the same as under the current requirements, but the approach in the paper attempts to provide a basis for the outcome.

Background

4 The accounting literature includes references to non-reciprocal or non-exchange transactions. These references are often found in accounting pronouncements that apply to public sector entities.

5 For instance, IPSAS 23 *Revenue from non-exchange transactions* includes the following definition:

> *Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange*.

6 The literature acknowledges that there is a degree of judgement in the identification of non-exchange transactions. In some cases, it may require judgment to identify if something is exchanged against the consideration transferred, or if the transaction is carried out at fair value.

The scope of the EFRAG Research project

7 Since as described below, the proposed approach could lead to accounting outcome not fully aligned to the *Conceptual Framework*, it is important to define clearly which transactions would be in scope.

8 The EFRAG Secretariat suggests defining transactions other than exchanges of equal value as non-exchange transactions which do not observe the arm's length principle and can be either:

(a) non-voluntary transactions whereby the entity does not have the discretion to decide whether to enter into the transaction; or

(b) voluntary transactions where the intended benefits are not primarily to maximise the proprietary benefits to the resource provider.

9 Often, transactions other than exchanges of equal value involve governments or government bodies in their capacity as such. This characteristic is not essential, but the involvement of the government is an indication that the transaction is pursuing an objective of social welfare.

10 Non-voluntary transactions are usually required by law or regulation, and it is often the case that it is harder to determine what is being exchanged as the benefit received is in the form of a wider societal benefit. Types of transactions that would fall into this category are: income taxes, levies and other taxes such as consumption taxes, property taxes, social insurance taxes, emission rights etc.

11 Voluntary transaction are transactions into which the resource provider enters freely and are normally subject to stipulations (conditions or restrictions). Types of voluntary transactions are government grants, donations, forgivable or low-interest loans etc.

12 Another indication of the existence of a wider objective is the tripartite nature of the arrangement. Under a grant transaction, the entity is generally receiving resources from one party and providing services to other parties, such as the General Public. In a levy, the entity may be paying consideration to a Government body and receiving services from another.

13 The nature of both voluntary and non-voluntary transactions is such that the non-equal value exchange has an underlying wider objective to provide social benefits to individuals, households or society. Such social benefits can include social insurance, social security, social assistance, education, health, military services etc. Transactions other than exchanges of equal value can also be triggered by conducting certain government-imposed social or environmental policies which may not directly relate to the delivery of goods or services but rather observe a particular behaviour.

14 Arguably, the definition in paragraph 8(a) could include transactions between an entity and its majority shareholders, as these have the legal power to require the entity to enter into a transaction. In many jurisdictions, there may be limitations to the majority shareholders to carry out transactions that are not at arms' length. The EFRAG Secretariat would suggest to explicitly scope out of the project transactions with the entity's shareholders.

15 The IASB is currently developing guidance for Rate-Regulated Activities. The effects of rate regulation may result in exchanges other than equal value, and the objectives may include a societal objective – regulation of tariffs for essential public goods and services. The EFRAG Secretariat is following the development of the IASB project and will assess in future to what extent the two models (the IASB model for RRA and the EFRAG model for TEEV) could be made consistent. At this stage however, the EFRAG Secretariat would suggest to explicitly scope of the project rate-regulated activities as defined by the IASB.

16 At this stage, the EFRAG Secretariat is unsure if the project should consider income taxes and is seeking EFRAG TEG's advice on the matter. As mentioned in paragraph 59, below; the proposed approach coud change the way income tax is recongised and measured, in particular in interim periods compared to the current requirements in IAS 34.

Questions for EFRAG TEG

17 Does EFRAG TEG have comments on the scope of the TEEV research project as defined in paragraph 8 above?

18 Does EFRAG TEG consider that the following transactions should be excluded from the scope of the TEEV research project: transactions with shareholders in their capacity as such, transactions within the rate-regulated activities project and income tax?

The revised approach

19 The approach incorporates a series of step. For each of them we illustrate the accounting treatment and the basis for it. In some cases, the EFRAG Secretariat sees merit for different alternatives.

20 For clarity, the steps are presented in successive order. For instance, a transaction that meets the characteristics of both the first and second step shall be treated as described under the first step.

21 As a general introduction, it is noted that under the revised *Conceptual Framework* (expected to be issued in Q1 2018) the notions of 'control' and 'obligation' are central to the definition of assets and liabilities.

22 An obligation to transfer an economic resource 'exists as a result of past events' only if the entity has already received economic benefits, or taken an action, that will or may require it to transfer an economic resource that it would not otherwise have had to transfer.

23 When it is not possible to identify an exchange, and the event creating control or obligation occurs at a point in time then the application of the definition would result of recognition of income and expense in full at that moment.

24 The **first step** of the approach applies to those transactions where it is possible to identify a performance obligation(s). In that case, the entity is either paying for an identified good or service, or being compensated to provide one. These transactions are recognised following the usual requirements:

(a) income-generating transactions are recognised as the entity performs;

(b) expense-generating transactions are recognised as the entity consumes the good or service.

25 These transactions could still be in scope of the Research project when the consideration exchanged does not equal in value the performance obligation. The EFRAG Secretariat has considered three possible alternatives for these cases:

(a) the entity should always allocate the full amount to the performance obligation(s). This solution would result in more transactions being treated the same as commercial transaction at arms' length. It also reduces complexity. However, if the transaction is the purchase of an asset and the entity is paying more than fair value, this creates a potential impairment issue;

(b) the entity should allocate the full amount to the predominant component of the transaction. The entity would need to identify the predominant component, which may be possible to do with a qualitative assessment. If the TEEV component was predominant the entity would then apply the following steps in the approach. However, this would imply that the entity may not recognise an exchange transaction or may still create a potential impairment issue;

(c) the entity should allocate the amount to the different components using the guidance in IFRS 15 *Revenue from Contracts with Customers.* Since the TEEV component could not be measured directly, the entity would apply the residual method. The entity would then apply the following steps of the approach to the TEEV component. This solution would provide the most relevant information, but would also increase complexity.

26 Most income-generating transactions are subject to conditions and stipulations. Some may argue that all conditions represent a sort of performance obligation. EFRAG Secretariat suggests that a distinction may be done.

27 At its July 2017 meeting, EFRAG TEG broadly agreed to consider the following characteristics which would make conditions attached to governments grants more similar to performance obligations.

The conditions must have substance

28 A term in a transfer agreement that requires the entity to perform an action that it has anyway no alternative but to perform, may lead to conclude that the term is in substance neither a condition nor a restriction and does not impose on the recipient entity a performance obligation. An example of that would be a general condition of compliance with applicable laws.

The conditions must have economic effects for the grantee if not complied with

29 The recipient must incur a present obligation to transfer future economic benefits or service potential to third parties (including the general public) when it initially gains control of an asset subject to a condition. As such the recipient is unable to avoid the outflow of resources (not complying with the conditions also has economic effects for the recipient). An example of that would be a condition that obliges the recipient to either use the funds to provide services within a certain period, or return them to the grantor.

30 If the recipient is not required to either consume the future economic benefits or service potential embodied in the transferred asset in the delivery of particular goods or services to third parties or else to return to the transferor future economic benefits or service potential, then the stipulation fails to meet the definition of a condition and would not create any performance obligations.

The conditions must be sufficiently specific

31 Government assistance to entities can be aimed at encouragement or long-term support of business activities either in certain regions or industry sectors. Conditions to receive such assistance may not be specifically related to the operating activities of the entity. Conversely some grants are more closely related to specific actions by the recipient, such as purchasing an asset or hiring a certain number of employees.

32 Conditions can vary greatly, from general promises that resources received will be used for the ongoing activities of a resource recipient to specific promises about the type, quantity and/or quality of services to be delivered. Sometimes the specificity of services promised to be delivered by a resource recipient and agreed by the resource provider are implied rather than explicitly stated.

33 There might be agreements where delivery of services may not be specific or distinct so as to identify a performance obligation (e.g. where the resource recipient promises to a resource provider that it will use transferred resources to finance a range of possible activities). In such agreements, it might be difficult to know what services have been transferred and if and when any performance obligations are fulfilled.

Fulfilment of the conditions must be liable to be assessed

34 Linked to the point above, the recipient should be able to assess if the condition has been fulfilled. There needs to be a minimum level of details and specification of such matters as the nature or quantity of the goods and services to be provided or the nature of assets to be acquired as appropriate and, if relevant, the periods within which performance is to occur.

35 Performance is generally monitored by, or on behalf of, the transferor on an ongoing basis. This is particularly the case when a condition a stipulation provides for a proportionate return of the equivalent value of the asset if the entity partially performs the requirements of the condition.

The realisation of the condition must within the control of the entity

36 A condition such as an event outside the control of the entity would not create performance obligations (e.g. a grant repayable if global market conditions or global economy improves).

37 The **second step** of the approach applies to those transactions that are linked to an underlying exchange of the entity that affects its financial position or profit or loss. In many cases, an entity becomes liable to pay a levy (which is the transaction in scope) because an exchange has occurred. Examples of this are taxes on sales or due on cash receipts from suppliers. In most cases, the party involved in the TEEV is different from the parties with which the reporting entity conducts the linked activity.

38 In the proposed definition, the EFRAG Secretariat would suggest that the linkage is achieved when the TEEV income or expense is affected by a single underlying exchange. A levy for a fixed amount triggered by reaching a threshold would therefore not be 'linked' and the second step would not apply to it. The third step would presumably apply.

39 Some underlying exchanges affect immediately profit or loss or only the balance sheet (like the receipt of a payment) and in that case the timing of the recognition of the TEEV income or expense would occur at the same time. However, underlying exchanges involve the recognition of assets, in which case the question arises as whether the recognition of the TEEV income or expense should occur at the time the underlying exchange affects the financial position of the entity or its profit or loss.

40 For instance, an entity may receive a grant to invest in energy-saving equipment. The TEEV income would fall in the second step if the condition is not deemed to be a performance obligation, because the TEEV income is linked to un underlying exchange. Should the entity recognise the income when the asset is recognised (impact in the financial position) or as the asset is depreciated (impact on the profit or loss)?

41 The EFRAG Secretariat has identified two possible alternatives:

(a) the recognition of the TEEV income or expense should be strictly based on the terms of the transaction. In the example, if the terms refer to 'purchase' the income should be recognised in full at that moment, while if the terms refer to 'purchase and use' the income should be recognised as the asset is depreciated;

(b) when the underlying exchange affects financial position and profit or loss in different times, the recognition of the TEEV income or expense should give prominence to the latter. This approach would be based on the notion that the TEEV income or expense is consideration for a 'societal' component (not directly identifiable) that the entity receives or provides over a period of time. Under this alternative, Step 2 and 3 are substantially similar: the difference is that the date of the underlying transaction is used at the place of the payment (or measurement) date.

42 The **third step** of the approach applies to those transactions where there are (expected) recurring cash inflows/outflows. It is for these transactions in particular that the EFRAG Secretariat believes that the notion of 'societal benefit' plays a significant role.

43 The EFRAG Secretariat noted that for these transactions progressive recognition of the cost between two subsequent payment (or measurement) dates is considered by many the appropriate outcome, however this cannot be linked to the pattern of consumption of an identifiable asset or service. A possible conceptual basis would be to introduce the notion that an entity receives value indirectly through public services provided by government to the general public at large.

44 Conversely, when the entity receives resources at regular intervals and is not required to act in a specific way, it may be argued that the transfer is intended to compensate the benefit created by the entity's activity to the public at large.

45 It is, of course, not possible to identify the pattern in which entities receive and consume the benefits of the general activity of the Government, or contribute to them. However, it seems reasonable that many of these are rendered continuously: education, security, infrastructures, judicial system.

46 A similar straight-line allocation over a period when there is no clear evidence of a different pattern of consumption is required under some IFRS:

(a) IAS 38 *Intangible Assets* requires to amortise using a straight-line method, if that pattern cannot be determined reliably;

(b) when dealing with payments conditional on a service condition, IFRS 2 *Share-based Payment* requires to presume that the services will be received during the vesting period. The Standard does not indicate explicitly the pattern of recognition, but Illustrative Example 1A clarifies that, if the vesting period is 3 years, in the first year the entity recognises 1/3 of the cost related to the instruments expected to vest.

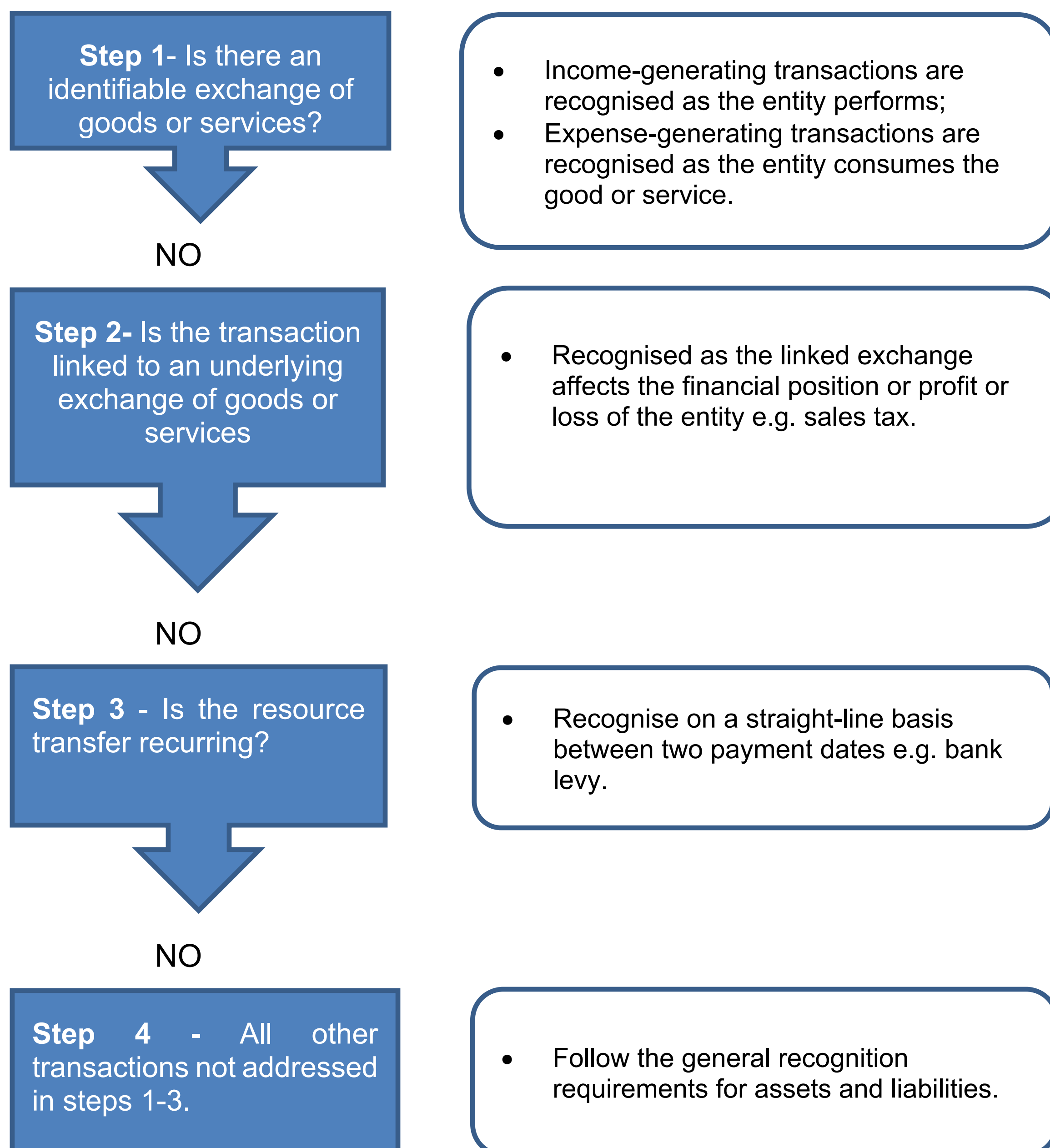
47 On that basis, the approach would result in a progressive recognition over a period:

(a) between two payment (or measurement) dates for cost-generating transactions;

(b) over the period designated by the applicable law or regulation, for income-generating transactions.

48 The **fourth step** applies to the other transactions in scope. Although the 'societal benefit' notion could be relevant also for these, it is not possible to define a reference period and recognition of the income/expense shall follow the recognition of the asset/liability under the normal requirements.

49 The following diagram summarises the application of the approach:



The role of uncertainty

50 Transactions under step two or three may result in assets and liabilities being recognised at an earlier stage than under the normal requirements. The 'societal benefit' notion could therefore weaken the role of 'control' in the recognition of an asset and 'obligation' in the recognition of a liability.

51 As noted above, these transactions are often conditional on future events, such as being in business at a certain date, keep operating on a certain period or achieving certain thresholds. The EFRAG Secretariat suggests that this conditional uncertainty would play a role in the approach in reference to the *measurement* of the transaction, not the recognition.

52 For instance, if an entity is liable to the payment of a levy on an annual basis, subject to a certain size of its net assets at the end of the period, the third step would apply, and the entity would:

(a) start recognising the expense (and liability) from the prior payment/measurement date;

(b) incorporate in the measurement the likelihood of reaching the threshold.

53 This implies that, in certain circumstances, the initial accrual could be reversed. However, the fact that most of the expense-generating transactions in scope are non-voluntary mitigates the risk of this happening.

54 If there was a preference for asymmetrical recognition of assets and liabilities, control could maintain an essential role for control in relation to the former. On the other side, control of the resource may come at an earlier moment, and in the absence of an identifiable performance obligation this would lead to an immediate recognition of the income. This outcome occurs under IPSAS 23 and has raised concerns. The IPSAS has published a Consultation Document where it is suggesting – as one possible alternative – that all stipulations are considered to be like performance obligations.

55 The EFRAG Secretariat has identified two possible alternatives:

(a) the first one is to apply a symmetrical approach under which the societal benefit can take precedence over the control notion. Under this alternative, in some circumstances entities would start to recognise income (and assets) at an earlier date than under normal requirements. In this alternative, the uncertainty about receiving the resource would be incorporated in the measurement;

(b) the second is to require a certain probability threshold as a condition to recognise income (and assets) for income-generating transactions under step two and three. This would introduce an element of asymmetry in the model which would reflect a notion of asymmetrical prudence. The threshold could be more or less high – 'probable', 'more likely than not' or 'not unlikely' – and would introduce an element of judgment and a risk of inconsistent application.

Limitations and implications

56 The proposed approach requires to distinguish between levies where the payer obtains a directly identifiable asset or service from the payment (for which normal recognition requirements would apply) and those where it does not. There is an unavoidable element of judgment required in this. For instance, in Australia oil and gas companies pay a levy to finance the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA), Australia's independent expert regulator for health and safety, environmental management, structural and well integrity for offshore petroleum facilities and activities in Commonwealth waters.

57 Given the range of activities of the regulator, it may be argued that the entity paying the levy is receiving an independent expert advice on their risk management plans. Alternatively, the regulations could have imposed that entities have these plans audited.

58 An additional element of judgment is whether this assessment should be performed at the entity's level or at the industry's level.

59 The application of the approach would change the measurement of income tax in interim periods compared to the current requirements in IAS 34 recognition in interim periods of income tax. This seems to be an unavoidable consequence, because both income tax and levies fund public services provided by governments. It is difficult to argue that income tax is a transaction-based levy; the taxable basis is profit and it results from an aggregation of transactions. It would not be possible to allocate components to specific transactions.

60 It could also be argued that emphasis on the payment dates of the levies or taxes to determine the period of recognition would not always result in comparable information as payment dates are arbitrarily determined under local tax laws.

Illustrative examples of the proposed approach

61 The EFRAG Secretariat has considered, in Appendix 1, the effects of the proposed approach to some of transactions that would be included in the scope of our Research project. For each fact pattern, the EFRAG Secretariat has also described the existing accounting treatment and how it may change under the forthcoming revised *Conceptual Framework*.

(a) example 1: Levies arising from participating in a specific market;

(b) example 2: Taxation linked to credit movements on bank accounts;

(c) example 3: Capital grant - government grant paid to an entity under the condition that the entity purchases a specified asset; and

(d) example 4: Income grant - government grant paid to an entity under the condition that the entity operates for three years (grants related to income with service condition).

Reminder of the current Conceptual Framework and expected changes in the forthcoming revised Conceptual Framework

62 Under the current *Conceptual Framework*, a liability is a present obligation arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

63 IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRIC 21 *Levies* conclude that an entity does not have a present obligation if it could take any actions to avoid the transfer.

64 For an event to be an obligating event, it is necessary that:

(a) the settlement of the obligation can be enforced by law; or

(b) the entity has created through its actions a valid expectation in other parties that it will discharge the obligation

65 In contrast, forthcoming revised *Conceptual Framework* proposes that an entity has a present obligation to transfer an economic resource if two criteria are met:

(a) the entity has '*no practical ability*' to avoid the transfer; and

(b) the obligation has arisen from past events; in other words that the entity has '*received the economic benefits, or conducted the activities, that will or may oblige it to transfer an economic resource that it would not otherwise have had to transfer*'.

66 The forthcoming revised *Conceptual Framework* notes that a present obligation could accumulate over time if the economic benefits are received, or the activities are conducted, over time (if throughout that time, the entity has no practical ability to avoid the transfer).

67 At its November 2016 meeting the IASB made a number of clarifications after considering the input received in response to its consultation on the forthcoming revised *Conceptual Framework*; some of which are relevant for the purpose of this paper:

(a) the forthcoming revised *Conceptual Framework* should not contain concepts that specifically address non-reciprocal transactions;

(b) the IASB however noted that for some types of transaction, an entity may have no practical ability to avoid a transfer if all avoiding actions would have economic consequences significantly more adverse than the transfer itself.

However, it would never be sufficient that the management of the entity intends to make the transfer or that the transfer is probable; and

(c) the enactment of a law (or the introduction of some other enforcement mechanism, policy or practice, or the making of a statement) is not in itself sufficient to give an entity a present obligation. The entity must have conducted an activity to which a present law (or other present enforcement mechanism, policy, practice or statement) applies.

68 This determination of the 'activities conducted that will or may oblige the entity to transfer an economic resource' and factors to conclude that an entity has 'no practical ability to avoid' a transfer are subject to interpretations that would depend on the type of transaction under consideration.

69 EFRAG Secretariat is not persuaded that the changes expected to be included in the forthcoming revised *Conceptual Framework* will necessarily provide a clear answer for all the types of transactions considered in this paper. We note that the IASB has tentatively concluded that further guidance would be more appropriately developed if and when the IASB is developing an IFRS Standard for that type of transactions. The EFRAG Secretariat will follow up on the isssue after the publication of the revised *Conceptual Framework* (expected in Q1 2018).

Questions for EFRAG TEG

70 Does EFRAG TEG have comments on the revised accounting model for Transactions other than Exchanges of Equal Value?

71 Does EFRAG TEG agree with the four step approach to categorise and acoount for TEEV transactions based on their characteristics?

Appendix 1: Illustrative examples

Example 1:
Levies arising from participating in a specific market
A government charges an annual levy of 0.1% of total liabilities reported in financial statements of banks at the end of the reporting period (31 Dec). If the reporting period is longer or shorter than 12 months, the levy is increased or reduced proportionately.

Current IFRS	Forthcoming revised *Conceptual Framework*	Proposed approach
• Before the end of the annual reporting period, the entity has no present obligation to pay a levy, even if it is economically compelled to continue operating as a bank in the future. • Liability recognised in full at point in time: at the end of the reporting period, if the entity is operating as a bank at that specific date. • No recognition in interim periods unless if interim period includes that last day of the annual reporting period (e.g. Q4).	• No present obligation until the entity has received economic benefits, or taken action, that will or may require transfer of resources (even if no practical ability to avoid payment) • Judgement needed to determine whether the entity has received benefits (authorisation to operate), or that it has taken an action (obtained the authorisation needed to operate in a particular market). • If so liability recognised incrementally over the reporting period based on expected amount to be paid at year-end. • If not: recognition in full at year-end.	**Step 1** - No separately identifiable asset or service received in exchange for the levy payment **Step 2** - No underlying linked exchange of goods or services **Step 3** - Recurring payments. The entity concludes that there is an indirect benefit. Therefore, it recognises the liability progressively between two payment dates.

Example 2:
Taxation of credit movements on bank accounts
According to tax regulation, debit or credit operations on bank accounts are subject to a transaction tax upon settlement. The tax is calculated based on 0.1% of the amount settled

Current IFRS	*Forthcoming revised Conceptual Framework*	Proposed approach
• Obligating event is the activity that triggers the payment of the levy as identified by the legislation. • In this case, the obligation to pay the transaction tax/levy becomes unavoidable when the entity has legal right to collect from the client or legal obligation to pay to provider.	• Performing the sale/ purchase is the activity that obliges the entity to transfer the resources. • Therefore, the entity has a present obligation arising from past event at the moment of the sale.	• **Step 1**: No identifiable good or services • **Step 2**: Yes the transaction is linked to an underlying exchange Further guidance would be needed, in the proposed model, to clarify if that exchange is considered to be the . purchase of the asset or the payment . • Amount recognised in full when the sale/purchase is entered into (or cash-settled).

• The obligation to pay the tax/levy is recognised at the date when the payment is received/made.		

Example 3: Capital Grant **Government grant paid to an entity under the condition that the entity purchases a specified asset**		
Current IFRS	Forthcoming revised *Conceptual Framework*	Proposed approach

• Grant subject to condition is recognised only when there is 'reasonable assurance that the entity will comply with the condition'; and
• Government grants related to assets can be either:
  • presented in the statement of financial position as deferred income and recognised in profit or loss on a systematic basis over the useful life of the asset; or
  • deducted from carrying amount of the asset. The grant is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation charge.
	• Grant subject to condition is recognised only when there is 'reasonable assurance that the entity will comply with the condition'; and
	• Government grants related to assets can be either:
	• presented in the statement of financial position as deferred income and recognised in profit or loss on a systematic basis over the useful life of the asset; or
	• deducted from carrying amount of the asset. The grant is recognised in profit or loss over the life of a depreciable asset as **a reduced depreciation charge.**
		• **Step 1**: Not applicable
		• **Step 2**: the grant is linked to an underlying exchange (the purchase of the asset).
		• The grant is conditional only upon the purchase of the qualified asset which is an exchange transaction.
		• In this case, the purchase of
		
		The grant would be recognised when the asset is purchased because at that date the entity has performed with conditions under the grant agreement
		
		The model would be to be clarified to determine whether the grant is taken as a profit, deducted from the cost of the asset or spread over the depreciation period for the Asset.

Example 4: Income Grant **(Government grant paid to an entity under the condition that the entity operates for three years (grants related to income with service condition).**		
Current IFRS	Forthcoming revised *Conceptual Framework*	Proposed approach
• Government grant is not recognised in income until	• Asset only recognised when 'present economic resource	• Step 1: The requirement to operate on the under-

there is 'reasonable assurance' that the entity will comply with the conditions attaching to it, and that the grant will be received. • As payment was received in advance, recipient recognises a liability • Government grants recognised in profit or loss 'on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate'	controlled by the entity as a result of past events'. • In this case, it could be argued that the entity does not control the resource (grant) until the end of the third year. • As payment was received in advance, the recipient recognises a liability as it incurs a present obligation to transfer future economic benefits	developed areas creates a performance obligation that the entity fulfils over the 3 years. • The grant is recognised in income on a straight-line basis over the 3-year period.