Agenda paper 06-02

TRANSFERS OTHER THAN EXCHANGES OF EQUAL VALUE (ToEEV)

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EFRAG

European Financial Reporting Advisory Group

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Purpose of EFRAG Research on ToEEV

Why is this research undertaken?

- Concerns with IFRIC 21 *Levies* show that IFRS may not be fully fit for non-exchange transactions.
- Doubts are also raised in relation to IAS 20 recognition (government grants liabilities).
- The project aims at providing a comprehensive analysis and approach to recognition of ToEEV transactions.
- More work may be needed on measurement.

What are ToEEV?

- ToEEV are transactions where an entity receives (or gives value to) another entity without giving (or receiving) approximately equal value in exchange.

- Equal value is not fair value – a sale with commercial discount is not a ToEEV.

- Judgment is required to identify a ToEEV. Typical features include (but are not essential):
  - The transaction is imposed on the entity
  - The transaction involves Government in some way.

Scope of ToEEV

- ToEEV included in the scope of the DP:
  - non-voluntary transfers where the entity does not have the discretion to decide whether to enter into the transfer
  - voluntary transfers of non equal value

- Scope exceptions:
  - transfers with shareholders
  - transfers within rate-regulated activities
  - income taxes.

Accounting model for ToEEV

The 4-step approach

Step 1- Does the transfer impose a performance-related condition on the recipient of the resources?

Yes

- Income-generating transfers are recognised as the entity performs.
- Expense-generating transfers are recognised as the entity consumes the good or service.

No

Step 2- Is the transfer linked to an underlying activity conducted or to be conducted?

Yes

- Recognise when or as the underlying activity is performed.

No

Step 3- Does the ToEEV occur on a recurring basis?

Yes

- Recognise on a straight-line basis between two payment dates.

No

Step 4 - All other transfers within the scope not addressed in steps 1-3.

- Follow the general recognition requirements for assets and liabilities.

Accounting model for ToEEV – Steps 1 and 2

Step 1

Step 1 applies to ToEEV that:

- impose a performance-related condition on the resource recipient; and
- an identified good or service is exchanged

Under Step 1, transfers are recognised for:

- income-generating transfers as the entity performs
- expense-generating transfers as the entity consumes the resources.

Step 1 generally aligned with usual IFRS recognition requirements.

Step 2

Step 2 applies to ToEEV that:

- arise as a consequence of an identifiable underlying activity

An activity is identifiable when it is possible to assess if and when it has been completed. Under Step 2, transfers are recognised as the underlying activity occurs.

Accounting model for ToEEV – Steps 3 and 4

Step 3

Step 3 applies to ToEEV that:

- are not covered by Steps 1 and 2; and
- are transfers with recurring payments

Under Step 3, transfers are recognised on a straight-line basis over the period between two payment dates.
This is based on the notion that the entity is contributing or benefitting from a *societal benefit* that occurs over time.

Step 4

Step 4 applies to other ToEEV that are within the scope of the project.

Under Step 4, transfers follow the general recognition requirements for assets and liabilities. This will often result in immediate recognition of ToEEV cost or income.

Role of uncertainty

- In Steps 2 and 3, the ToEEV model could result in earlier recognition of assets and liabilities than under existing IFRS Standards. This is because the role of control and obligation is less determinative than in the definitions in the Conceptual Framework.

- For expense-generating transfers, the DP proposes that the conditional uncertainty would play a role in measurement, not in recognition

- For income-generating transfers, the DP proposes two alternatives:
  - apply a symmetrical approach - the societal benefit takes precedence over the notion of control and income is recognised earlier than under the *Conceptual Framework*. The uncertainty would be incorporated in the measurement;

  - require a probability threshold to recognise income (and assets) under Steps 2 and 3 - this would introduce asymmetry in the model and an element of judgment as well as a risk of inconsistent application

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