

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.

EFRAG Research Project

Transactions other than Exchanges of Equal Value

Cover note and Project Update

Objective

- 1 The objective of this session is to further discuss the research project on Transactions other than Exchanges of Equal Value ('TEEV') and in particular:
 - (a) the implication of removing the 'imposed transaction' criterion in defining the scope of the project;
 - (b) whether the model should aim to achieve a symmetrical treatment of expense and income-generating transactions;
 - (c) the impact of conditions on income-generating transactions are subject to conditions (like in the case of most Government grants).

Background of the project

- 2 During the IASB 2016 Agenda Consultation, some constituents identified non-reciprocal transactions as an area requiring attention by the IASB. These constituents identified several different transactions, including income taxes, levies, pollutant pricing mechanisms and government grants as examples of transactions in which the non-reciprocal nature of the transactions contributed to the difficulties in accounting for them. They noted that these transactions may have characteristics that could warrant a specific accounting treatment.
- 3 The IASB finally decided to not add this project to its agenda as it was not persuaded that grouping these topics would allow to find a common solution.
- 4 In March 2016, after the completion of the EFRAG Proactive Agenda consultation, the EFRAG Board approved to add to the agenda a research project on non-reciprocal transactions. The objective of the project is to consider whether the characteristics of certain transactions may justify a different accounting approach.

Why did EFRAG decide to start the project?

- 5 EFRAG supports its proactive efforts with clear evidence that there is an issue and that it concerns material transactions and amounts.
- 6 There is no comprehensive guidance on non-reciprocal transaction in IFRS Standards although a number of transactions (income tax, government grants...) are addressed in specific standards. EFRAG Secretariat also considers that:

- (a) the discussions around IFRIC 21 *Levies* provided some evidence that there is merit in investigating this topic further.
 - (b) A number of concerns have been raised in relation to the existing guidance on Government Grants and the IFRS interpretations committee has received a number of submissions over time.
- 7 On the quantitative side, there is no readily available data about the importance non-reciprocal transactions as a whole. It was however noted that many of these transactions considered occur when entities exchange with Governments acting in their capacity play a major role in modern economies. As anecdotal evidence of that importance:
- (a) European Governments income tax revenue as a ratio of GDP, accounted for 40.0 % of GDP in the European Union in 2015¹.
 - (b) An official study by the European Commission² suggested that the European Union financial transaction tax (EU FTT) that 11 Eurozone countries are expected to introduce could raise as much as €35bn a year.

Past history

EFRAG TEG meeting – September 2016

- 8 EFRAG TEG discussed how the example of levies could be used as a lead-in to start developing an accounting model for transactions with the characteristics described in paragraph **Error! Reference source not found.**, above. It was noted that:
- (a) the forced nature of a transaction such as levies may justify a change in the timing of the recognition. When the entity does not have full discretion to avoid the outflow of resources, recognition of a future likely transaction does not create the risk of a future reversal (at least, not a reversal contingent only on the entity's decisions).
 - (b) The non-reciprocal nature of a transaction may justify a change in the way the cost of a transaction is allocated. Normally, cost is allocated to depict the consumption of the benefits from a transaction, although it may also reflect the reassessment of previously expected benefits (impairment). If the entity does not receive goods or services, or is unable to identify them, then a different approach to cost allocation is needed.
- 9 EFRAG TEG generally agreed that, as a starting point, EFRAG Secretariat could look again at the accounting for levies, and develop a conceptual justification for the alternative accounting. However, the research should not be limited to considering whether such transactions create assets and liabilities as defined in the Conceptual Framework but should also consider the issue from the perspective of depiction of the performance. (see meeting papers [here](#)).

¹ Source : Eurostat 2016.

² Source : *European Commission (28 September 2011)*. "Executive summary of the impact assessment" . European Commission. Retrieved 26 February 2012.

EFRAG TEG meeting - December 2016

- 10 EFRAG TEG discussed a possible conceptual approach for expense-generating transactions in the scope of the project using the example of levies as a lead-in (see meeting papers [here](#)).
- 11 The approach considered that, for certain types of levies, a straight-line allocation of cost could be justified on the basis of a receiving 'general benefits' from the general activities of Government (such as Educations, Healthcare...). EFRAG TEG discussed a paper comparing the application of the current Conceptual Framework, the revised Conceptual Framework and the proposed alternative approach to a number of expense transactions.
- 12 The imposed nature of transactions such as levies was used as a rationale to anticipate the recognition of a liability compared to the general definition on the basis that the imposed nature would make any reversal unlikely to happen. This was also used as a rationale for a straight-line recognition of expenses (in the case of recurring payments) as it seemed reasonable to assume, in the absence of other determinable consumption patterns, that services rendered by Government were consumed continuously.
- 13 EFRAG TEG tentatively agreed that for most recurring levies, progressive recognition of cost was the appropriate answer. A possible conceptual basis is that the entity may be receiving some indirect benefit from the general activities of the Government, although there is no direct link between the amount paid and the benefit received;
- 14 It was noted that, the progressive recognition may result for some levies in the recognition of balances that do not meet the current definition of liability under the Conceptual Framework for Financial Reporting. It was unclear if the proposed amendments to the definition would eliminate the conflict.
- 15 EFRAG TEG generally agreed with the broad direction of the paper and suggested the following improvements for future development of the research:
 - (a) To better articulate how the characteristics of the transactions in the scope of the project justify a different approach and in the 'causal links' that may exist between a payment made and an underlying transaction; and
 - (b) To consider whether the possible approach could be useful in accounting for a wider range of arrangements than levies, in particular for income-generating transactions such as government grants.

EFRAG TEG meeting - February 2017

- 16 EFRAG TEG considered a paper that used government grants as a lead to illustrate how the model could also apply to revenue generating transactions, and the related challenges (see meeting papers [here](#)).
- 17 It was noted from the outset that the 'imposed transaction' criterion previously used to define the scope of the project would need to be reconsidered. One way to maintain the criterion in the model would be to consider the degree of discretion from the perspective of the grantor. Sometimes, laws and regulations create an obligation on the Government to provide the assistance, provided that some conditions are met. The obligation is therefore not seen from the perspective of the individual beneficiary – that does not have an enforceable claim to resources; but from the perspective of the general public interest.
- 18 The EFRAG Secretariat was asked to reconsider, at a future meeting, the implication of removing the 'imposed' criterion for the expense-generating transactions model (i.e only scoping criterion would be the lack of evidence of an exchange of equal value).

- 19 The model also suggested to consider whether conditions attached to certain grants and similar government assistance could create forms of ‘performance obligations’ that could be considered as the basis for the income recognition. EFRAG TEG suggested that further analyse of the concepts in IFRS 15 would be useful in developing the income model further, subject to modification if necessary. In particular it was suggested to:
- (a) better analyse the effects of ‘conditions’ stipulated in government grant and similar agreements i.e. distinguish whether these conditions actually have economic consequences and create obligations for the beneficiaries and when they can be considered to be satisfied; and
 - (b) more broadly, look at the principles and concepts in existing IFRS to see if they can provide a framework for some of the transactions under consideration.

Future steps

- 20 For the next sessions of the project, the EFRAG Secretariat plans to address the following:
- (a) To address potential issues related to measurement that had been identified on the first phase of the project, where the focus was in the recognition aspects. This could apply to transactions such as defence / security contracts, bank bailouts, etc.
 - (b) To consider the issue of disclosures.

Planned final outcome

- 21 The expected output of the project would be a short discussion paper, assuming that EFRAG is able to identify some potential alternatives to present to constituents. The discussion paper could be useful in providing input to the EFRAG’s comments to the IASB revised Conceptual Framework.

Questions for EFRAG TEG

- 22 Does EFRAG TEG have comments on the project update?

Agenda Papers

- 23 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 09-02 – Issues paper on TEEV research project; and
 - (b) Agenda paper 09-03 – Summary of relevant pronouncements – for background only.