SVENSKT NÄRINGSLIV

EFRAG
35 Square de Meeûs
Brussels
Belgium

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Discussion Paper
Non-Exchange Transfers

A Role for Societal Benefit?

Thank you for the opportunity to comment on the Discussion Paper (DP). We appreciate that EFRAG has addressed issues related to accounting for non-exchange transfers.

Few of our members have encountered questions related to such transactions. Therefore, we do not consider this to be major general issue. There are however solutions in current IFRS that are questionable both from a conceptual and a practical perspective. The prime example is IFRIC 21 *Levies*. We therefore welcome improvements in this area. Overall, we consider that unless a specific point in time can be identified, non-exchange transfers should be accrued over time. This applies e.g. to recurring transfers of resources.
We have answered some of the questions raised in the DP in the Appendix to this letter.

Yours sincerely,

CONFEDERATION OF SWEDISH ENTERPRISE

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The Swedish Enterprise Accounting Group (SEAG) represents more than 40 international industrial and commercial groups, most of them listed. The largest SEAG companies are active through sales or production in more than 100 countries.

Appendix

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?*

As shown by the DP, the amendment of the Conceptual Framework in 2018 raises the question if the time has come for a conceptually based review of accounting for NETs. Current guidance in IFRS is fragmented, using different recognition models and is of different age. Adding to this, not all transfers are addressed by existing IFRS standards.

The overall question is if this creates a major problem for financial reporting. SEAG has not identified any general practical problems relating to accounting for NETs. There are however solutions in current IFRS that are questionable both from a conceptual and a practical perspective. The prime example is IFRIC 21 *Levies*. Examples 3 and 4 in the DP provides a good illustration of this. This indicates that a review of accounting for NETs is needed at least to some extent.

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 is 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?*

SEAG believes that transactions when entities give up resources without receiving equal value are more important to address then when receiving resources without giving up equal value.

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?*

We agree with the proposed exclusions. Accounting for income taxes is an issue that has been analysed from a conceptual point of view by various stakeholders and in academic literature since the adoption of IAS 12.[1] This has not resulted in a major reform of accounting either for income taxes or other types of taxes. Instead, amendments of the IAS 12 have been rather technical and limited in scope. While a comprehensive discussion of accounting for taxes is interesting, we believe that it will be difficult to address the conceptual alignment between e.g. IAS 12, IAS 37 and the approach regarding NETs as discussed in the DP.

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?*

We consider that transactions should be split into components unless they are not material or such an allocation is deemed to be too complex or costly for preparers.

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?*

Overall, we consider that unless a specific point in time can be identified, non-exchange transfers should be accrued over time. This applies e.g. to recurring transfers of resources.

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[1] Cf e.g. the EFRAG Discussion Paper: Improving the Financial Reporting of Income Tax 2011.