POSITION PAPER

DISCUSSION PAPER NON-EXCHANGE TRANSFERS A ROLE FOR SOCIETAL BENEFIT?

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ESBG welcomes the opportunity to comment on the EFRAG Discussion Paper Non-Exchange Transfers (the ´DP´) as issued in November 2018.

We appreciate EFRAG's work and initiatives conforming its research activities carried out with the objective to influence the future standard-setting developments. In particular, we agree that entities may engage because of different reasons in transfers whereby they receive a different value. Such types of transfers (which we understand may include sale contracts, financial assets originated such as loans and other types of transfers encompassing levies and other fees) require an adequate accounting treatment under IFRS.

However, we consider that the main objective of the DP should have been to focus on those transfers whose accounting treatment will not be covered by the revised Conceptual Framework. In this context, we believe that before developing any future proposal based on this DP, it is necessary to assess what will be the expected effects of the revised Conceptual Framework in relation to any applicable IFRS Standards (e.g. the effects on the current requirements underlying IFRIC 21 Levies and IAS 20 Government Grants), rather than developing a specific regulation for those transfers denominated NETs, which in many of the cases described, have already been regulated by different IFRS standards.

We note that this assessment has partly been made by way of the examples being provided, but in some of them the conclusion reached under the DP is different from the outcome that the revised Conceptual Framework will provide for. Such types of conclusions may question whether EFRAG disagrees with the fundamentals of the revised Conceptual Framework.

Accordingly, the objective of the DP should be to focus on dealing with those transactions that may not be covered by the revised Conceptual Framework, and any applicable IFRS Standard could consider the necessary changes in order to be aligned with the framework.

In addition to this suggestion on the DP's scope, we would like to detail below our views to some of the questions raised in the questionnaire as well as to call to the attention of EFRAG the most significant issues that remain unresolved:

QUESTION 1- OBJECTIVE OF THE PROJECT

In chapter 1, the DP presents arguments to support developing an accounting treatment for Non-Exchange Transfers.

However, currently there are different applicable IFRS standards that regulate non-reciprocal transfers, including IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, IAS 41 Agriculture or IFRIC 21 Levies. We agree with EFRAG's view that as specified in the DP's caption 1.18, existing IFRS Standards provide different recognition models for particular types of non-reciprocal transfers.

Nevertheless, the IASB issued the revised Conceptual Framework for Financial Reporting (´2018 Conceptual Framework´) in March 2018. The revised Conceptual Framework will be effective from 1 January 2020 and changes, among other aspects, the definition of a liability. We believe that these changes may affect the accounting treatment of some types of non-reciprocal transfers, such as levies, with a focus on the timing and pattern of recognition.

Because of this, we think the starting point should be to analyse the expected effects of the new definition of liability in the different applicable IFRS standards that deal the accounting treatment of different types of non-reciprocal transfers. Then, the DP should conclude, first, if existing IFRS Standards under the new conceptual framework provide different recognition models for the similar types of non-reciprocal transfers. And, secondly, evaluate what types of non-reciprocal transfers don't have any explicit guidance, for example, donations, grants and subsidies from other parties than Government or investments credits, and develop a specific guidance to them under the ´2018 Conceptual Framework´. In the presumption that the stakeholders of the entities consider them necessary because they are not able to be dealt with under the general principles established to assets and liabilities of the revised Conceptual Framework.

For example, considering the case of levies referred in the DP, we believe that the application of the revised definition of liabilities included in the Conceptual Framework may have potential effects on the accounting treatment of levies, specifically, on the Single Resolution Fund and Deposit Guarantee Fund contributions. As indicated in Example 3, Levies arising from participating in a specific market, there are two conditions that must be fulfilled to recognise a liability according to the revised Conceptual Framework:

1. The entity has no practical ability to avoid payment; and
2. The entity has received economic benefits or conducted the activities that will or may require transfer of resources.

Moreover, the main clarification in the new definition of the liabilities is paragraph 4.44 of the revised Conceptual Framework that establishes "…the action taken could include, for example, operating a particular business or operating in a particular market. If economic benefits are obtained, or <u>an action is taken, over time, the resulting present obligation may accumulate over that time</u>".

This new concept will lead to recognising the levy (liability) on an accumulated basis over time unlike the IFRIC 21 that requires recognising it in full at a point in time when it is met with the triggering obligation event. Therefore, we understand that both bank levies would be recognised on an accumulated basis over time since the activities performed or economic benefits obtained are not at a point in time but depend on multiple actions for operating in a financial market. We agree that this new approach will improve the understanding of the interim reporting of the financial entities and provides more useful information, leading to a very similar accounting treatment as the one reached in the DP under Step 3.

In the above paragraphs we assume that companies in the EU applying IFRS will have to assess any impacts that the revised Conceptual Framework may have in their accounting policies and financial reporting although this framework is not endorsed at the EU level. We are concerned how companies will have to deal with those situations where the application of the revised Conceptual Framework leads to a different accounting treatment as the required by current IFRS standards, as it may be the case of certain levies.

<u>QUESTION 2.2- IS THE DEFINITION OF NETs AND THE GUIDANCE AROUND THE ASSESSMENT OF THEIR EXISTENCE SUFFICIENTLY CLEAR AND OPERATIONAL?</u>

We consider that the proposed definition of NETS in the DP should be more specific, concrete and objective to eliminate the risk of using arbitrary judgments by entities that allow them to use this specific treatment for transfers that give rise to onerous contracts whose applicable standard is substantially different.

We suggest that EFRAG describes through a variety of examples which operations could be defined as NETs and which others not. We are aware that the judgment to be used by entities has a leading role, for this reason, we propose to delimit the proposed definition with a less extensive and more specific case.

QUESTION 3 – TRANSACTIONS THAT INCLUDE A NET

We think the best alternative is the third whereby the entity should allocate the amount to the different components since as indicated in the DP, it would provide the most relevant information. In relation to the increasing of the complexity, if the definition of NETs is clear and specific, as we have proposed above, it will mitigate the risk of complexity as it will be easier to identify these types of transfers.

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