NON-EXCHANGE TRANSFERS: A ROLE FOR SOCIETAL BENEFIT

Issued 30 April 2019

ICAEW welcomes the opportunity to comment on *Non-Exchange Transfers: A Role for Societal Benefit* published by EFRAG in November 2018, a copy of which is available from this link.

We support EFRAG's efforts to encourage further debate on this important subject. However, we believe it is too soon to develop any definitive accounting approach for non-exchange transfers. In our view, this project should instead focus on gathering evidence and developing thinking which could helpfully contribute to the IASB's consideration of this matter at a later date. We also believe it is important to take a holistic approach to this project and coordinate, where possible, with the work of other organisations.

This response of 30 April 2019 has been prepared by the ICAEW Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the Faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The Faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 150,000 chartered accountant members in over 160 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

KEY POINTS

IMPORTANT TOPIC FOR CONSIDERATION

1. We support EFRAG's efforts to encourage further debate on this important subject. As noted in the discussion paper, the IASB's 2016 Agenda Consultation identified non-exchange transfers as an area creating difficulties in practice for some constituents. Indeed, in our own response to the IASB's agenda consultation we outlined how 'non-reciprocal arrangement with governments' might helpfully be considered further, ideally within the revised Conceptual Framework. Therefore, we welcome further discussion on the nature of these transfers, the associated financial reporting issues, and any possible solutions to the issues identified.

HOLISTIC AND COORDINATED APPROACH

2. We believe it is important to take a holistic approach to this project and coordinate, where possible, with the work of other organisations. In particular, non-exchange transfers are an important type of transaction in the public sector and have (and continue to be) considered in detail by IPSASB. In our view, it would be helpful for EFRAG to keep in mind the work carried out by IPSASB and other relevant organisations such as CIPFA in order to share knowledge, identify common issues, and to ensure consistency, for example, in relation to terminology and definitions.
3. Similarly, we believe it would be helpful to take greater account of issues relating to the not-for-profit sector. While we acknowledge that International Financial Reporting Standards are written for commercial/for-profit entities, in practice they are also widely used and/or referred to by entities in the not-for-profit sector. Moreover, there are similarities in the issues arising from various different non-exchange transactions across the not-for-profit and commercial sectors which might helpfully be considered together as part of this project. Currently it is not entirely clear how the approach outlined in the paper would translate to entities operating in the not-for-profit sector, for example, the accounting of charitable donations.

DEVELOP CONCEPTUAL UNDERPINNING

4. We believe it is too soon to develop any definitive accounting approach for non-exchange transfers. In our view, this project should focus on gathering evidence and developing thinking (together with other relevant organisations) which could helpfully contribute to the IASB's consideration of this matter at a later date.
5. That said, we broadly agree that non-exchange transfers have differentiating characteristics that could warrant the development of specific accounting treatments. However, we would not support the development of a single separate accounting standard to be applied for all non-exchange transfers. We believe that a better approach would be to develop a set of principles which could provide a conceptual underpinning for non-exchange transfers. In our view, a stronger conceptual foundation would provide a starting point for standard setters to consider different types of non-exchange transfers and assess whether there is a need to develop specific accounting treatments on a case-by-case basis.
6. It is within this context that we have considered the matters outlined in the discussion paper.

ANSWERS TO SPECIFIC QUESTIONS

Question 1.1

Do you agree that non-exchange transfers have differentiating characteristics that warrant the development of a specific accounting treatment?

7. As noted above, generally speaking we believe it is too soon to develop any definitive accounting approach for non-exchange transfers. In our view, this project should focus on gathering evidence and developing thinking (together with other relevant organisations) which could helpfully contribute to the IASB's consideration of this matter at a later date.
8. That said, we broadly agree that non-exchange transfers have differentiating characteristics that could warrant the development of specific accounting treatments. However, we would not support the development of a single separate accounting standard to be applied for all such transactions. In our view, a better approach would be to develop a set of principles which could provide a conceptual underpinning for non-exchange transfers.
9. We believe that a stronger conceptual foundation would provide a starting point for standard setters to consider different types of non-exchange transfers and assess whether there is a need to develop specific accounting treatments on a case-by-case basis.

Question 2.1

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?

Question 2.2

Is the definition of NETs and the guidance around the assessment of their existence sufficiently clear and operational?

Question 2.3

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?

10. We have chosen to answer questions 2.1 to 2.3 together as we believe the discussion around scope, definition and exclusions of the project are closely interlinked.
11. The paper describes non-exchange transfers as 'transfers where an entity either receives value from another party (or gives value to it) without directly giving (receiving) approximately equal value in exchange.' Both non-voluntary and voluntary non-exchange transfers are within the scope of this definition. Generally speaking we believe this definition and the related guidance around the assessment of the existence of non-exchange transfers provides a helpful starting point for a high-level discussion on these types of transactions. However, we believe further consideration should be given to how the proposed definition (and approach) would apply to voluntary transfers, for example, charitable donations. We do not believe this has been fully explored in the paper, which is unfortunate given the importance of such transactions to the not-for-profit sector.
12. While we understand the rationale for excluding certain transactions from the scope of this project, it does highlight a weakness of the proposed approach. As already noted, we believe a better approach would be to develop a set of principles which could provide the conceptual underpinning for non-exchange transfers. If approached this way it would not be necessary to exclude important transactions such as income taxes, as these could be considered by standard setters, along with other non-exchange transfers on a case-by-case basis. In light of this view, we have not commented on whether the proposed approach outlined in the discussion paper would be fit for income taxes.

13. We also have not commented on whether the approach outlined in the paper would be operational as in our view it is too early to make such an assessment. Moreover, as explained above, we would support the development of specific accounting guidance for specific scenarios, rather than the development of a single standard covering all scenarios.

Question 3.1

Which of the methods presented in paragraph 2.11 do you support, and why?

14. Without an understanding of the wider context and fact patterns of a particular transaction, we do not believe it is possible to accurately comment on which of the three methods might be the most appropriate way to account for a non-exchange transfer included within a commercial transaction.

15. Generally speaking, we would suggest that the methods outlined in the paper might better serve as possible 'factors to consider' when determining the need for a specific accounting treatment for a particular type of non-exchange transfer (starting from a set of principles as the conceptual underpinning to all such transactions). Other factors to consider might include avoiding undue complexity and any subjectivity which could result in loss of comparability between entities.

16. In addition, we question how the proposed methods might be applied in the not-for-profit sector where the determination of a commercial transaction can in itself be problematic. As already noted, we believe it would be helpful to consider further the implications of the proposals in the discussion paper for the not-for-profit sector.

Question 4.1

Which of the approaches presented in paragraph 3.13 do you support, and why?

17. We have concerns over the first approach outlined in paragraph 3.13(a) which appears to suggest an overly strict application of the terms of a contract which in our view may not result in an accounting treatment which reflects the substance of the transaction. Furthermore, we believe that due to the significant judgement involved under approach one, there is a greater risk of inconsistency between entities and a high risk of manipulation of the results.

18. That said, similar to our response to question 3.1, without an understanding of the wider context and fact pattern of a particular transaction, we do not believe it is possible to identify a preference from the approaches outlined in paragraph 3.13. While we acknowledge that Example 5 within Appendix 2 demonstrates one possible transaction falling in the scope of 'Step 2' (ie, a transfer linked to an underlying activity conducted or to be conducted) the underlying facts and circumstances of this transaction would still be needed to conclude on the appropriate accounting treatment.

Question 5.1

Do you agree with the outcome? And you believe that the notion of 'societal benefit' provides a conceptually adequate basis to support the outcome?

19. While we do not disagree with the notion of 'societal benefit' for the purpose of discussing non-exchange transfers, we believe further thought is needed in order to develop a stronger conceptual underpinning. In particular, we note that the discussion paper does not provide a clear definition of 'societal benefit' which is problematic when assessing whether this concept provides an adequate basis for the proposed approach and outcomes. In our view, developing a clear definition of 'societal benefit' is an important starting point given its importance to the overall project. It may be worth considering the work carried out by other organisations in this area, in particular IPSASB.

20. As a general point, it is not entirely clear what transactions would fall into step 3 of the suggested approach ie, transfers that do not impose performance-related conditions, are not linked to an underlying activity, but occur on a recurring basis. It may be that this applies to a very limited or particular type of non-exchange transfer, in which case we refer to our suggested approach above which would allow accounting standard setters to consider particular types of non-exchange transfers on a case-by-case but from a stronger conceptual starting point.

Question 6.1

Do you think that the recognition of expense-generating and income-generating transfers should be subject to a symmetrical or asymmetrical approach? Please explain your answer.

21. We are not in favour of either of the two proposed alternatives which attempt to address the role of uncertainty in the recognition of non-exchange transfers. As a general point, asymmetry is not uncommon in financial reporting and largely depends on the facts and circumstances of a particular transaction. That said, it is certainly something that should be borne in mind when considering whether a particular accounting treatment appears reasonable ie, to ensure it does not result in any unusual asymmetry. However, we do not consider it a principle which should form the basis of developing a general approach to accounting for non-exchange transactions.

22. More specifically, we note that the accounting treatment suggested in paragraphs 4.11 and 4.12 would not be in line with the IASB's Conceptual Framework. This would result in inconsistent accounting treatments for these transactions and in our view may not result in helpful information.