Deutsches Rechnungslegungs Standards Committee e.V.
Accounting Standards Committee of Germany
DRSC

DRSC e. V. • Zimmerstr. 30 • 10969 Berlin

73. Sitzung IFRS-FA am 01.03.2019
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Jean-Paul Gauzès
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IFRS Technical Committee
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Berlin, 1 March 2019

Dear Jean-Paul,

EFRAG Discussion Paper *Non-exchange Transfers ('NETs'): A role for societal benefit?*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on EFRAG's Discussion Paper *Non-exchange Transfers ('NETs'): A role for societal benefit?* (herein referred to as 'DP').

We do not agree with the proposals expressed by EFRAG in the DP for the reasons as described below:

Objective of the Project

We do not support the objective of the project and the DP proposal that specific accounting treatment is required for NETs. In our view, IFRS accounting guidance for reciprocal transfers, as described in the DP, is not considered to be broken and existing IFRS guidance has proven well in practice. Therefore, we do not see any sufficient foundation justifying the replacement of a wide range of existing accounting guidance such as IAS 20 *Governments Grants* and IAS 41 *Agriculture*.

We acknowledge the ongoing debate in Europe about existing IFRS accounting guidance regarding regulatory bank levies and the concerns raised by some stakeholders that the "cliff effects" resulting from the application of IFRIC 21 *Levies* in context of interim reporting reflect a misrepresentation of the entity's financial performance.

The IASB indicated that changes to the definition of a liability in the revised Conceptual Framework could cause changes for the accounting of some levies. Thus, we think, the objective of project should be narrowed to how the revision of the Conceptual Framework would affect the accounting for regulatory bank levies as legally designed in Europe.

Scope of the Project

We do not agree with the scope and proposed definition of NETs in the DP. In our view, the definition of NETs as proposed in the DP would cover a much wider range of transfers compared to those addressed in the DP. The definition of NETs would also cover some sort of onerous contracts in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and other IFRSs, because an entity may sign loss-making contracts on a voluntary basis for a short period of time, for example typically when entering a new market. Similarly, an entity might sell parts of its inventory below its market price in some situations and on a voluntary basis. In consequence, the accounting guidance as proposed in the DP would result in different recognition guidance for those transfers compared to existing IFRS guidance. Therefore, we think the proposed definition would raise various cross-cutting issues for a wide range of transfers not addressed with necessary detail in the DP, such that we are concerned about unintended consequences.

In addition, we think the judgment would be too arbitrary to determine whether a paid service and the service received in return have approximately the same value. This would be especially the case if there was no active market available to observe market prices.

Lastly, in our view, it is incomprehensible to scope out income taxes that would be at the heart of the NETs definition.

The 4-Step Approach

We disagree with a criterion of “recurring basis” as developed in step 3 of the 4-step approach. Determining whether a transfer or event will be recurring or non-recurring already proved to be difficult within previous discussions in context of reporting adjusted/alternative performance measures. Furthermore, the regulatory bank levy introduced in response to the financial crisis financing the Single Resolution Fund will be raised on an annual basis until 2024 (when the Single Resolution Fund will reach its target size). After 2024 it is not yet clear whether further contributions will be effectively raised on an annual recurring basis. Thus, we already foresee difficulties applying a “recurring basis” criterion for some of the existing levies.

Additionally, we think it is unhelpful to describe step 4 as the application of the general recognition requirements for assets and liabilities under the requirement of IFRSs. In our view, this should be considered to be the starting point, and any requirement for recognition or derecognition should be addressed within this guidance. In other words, we think it is unhelpful and unjustified to develop a criterion of “recurring basis” that would overrule the general recognition guidance in IFRSs.

If you would like to discuss our comments further, please do not hesitate to contact Holger Obst (obst@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President