



## Accounting for Black Economic Empowerment transactions

The Department of Trade and Industry published a financial reporting pronouncement earlier in this year that deals with the accounting treatment of BEE transactions. The pronouncement focusses on the application of IFRS 2 to transactions entered into to obtain BEE credentials and the accounting treatment of such credentials. This article highlights some further accounting matters, which are not specifically addressed in the pronouncement, that often arise from BEE transactions.

During March 2018 the Department of Trade and Industry issued a financial reporting pronouncement (FRP2) on the accounting treatment of black economic empowerment (BEE) transactions under IFRS. This article discusses some of the guidance provided in FRP2. It also highlights other aspects of these transactions that are often encountered but not covered by the pronouncement.

### FRP2 guidance

FRP2 applies to companies that are required by the South African Companies Act to prepare financial statements that comply with IFRS. The focus of FRP2 is on the application of IFRS 2 *Share-based payments* ('IFRS 2') to BEE transactions.

IFRS 2 applies to arrangements where the reporting entity receives goods or services from a supplier and in exchange that supplier becomes entitled to receive equity instruments of the entity (or group entity) or payments based on the price or value of such equity instruments. The scope of IFRS 2 specifically includes transactions where some or all of the goods or services received cannot specifically be identified.

In the context of BEE, which aims to empower black people to meaningfully participate in the South African economy, shares (or other equity instruments) may be granted at a discount to market value. If the reporting entity obtains BEE credentials by entering into such an arrangement, this transaction falls within the scope of IFRS 2 even though the specific goods or services received cannot be identified. The pronouncement states that where the difference between the market value of the equity instruments and consideration received (either cash or identifiable goods or services) is attributable to the fact that the entity obtains BEE credentials, such BEE credentials do not meet the definition of an intangible asset. The difference should accordingly be expensed through profit or loss.

Whether the expense is recognised immediately or over a vesting period depends on the terms and conditions of the arrangement. While some conditions may require that the amount recognised be adjusted, others would be incorporated into the initial valuation of the equity instruments granted.

If the BEE credentials are acquired as part of a business combination, an intangible asset can similarly not be separately recognised for these credentials. However, in the context of a business combination, the portion of the purchase price attributable to BEE credentials would ultimately be reflected as part of goodwill recognised in terms of IFRS 3 *Business Combinations*.

### Other aspects of BEE transactions

As indicated above, the focus of FRP2 is mainly on the application of IFRS 2 to transactions undertaken for purposes of obtaining BEE credentials and the recognition of intangible assets relating to BEE credentials. A number of matters that are not necessarily unique to these transactions often arise in arrangements undertaken for BEE purposes. These aspects could result in some challenges technical questions from an accounting perspective. These matters that preparers of financial statements should bear in mind when accounting for such arrangements include:

- ▶ Accounting for various types of financing arrangements relating to the acquisition of shares and related issues, for example, collateral for these financing arrangements;
- ▶ Accounting for reorganisation activities or group restructuring undertaken prior to entering into transactions aimed at ensuring compliance with BEE regulations; and
- ▶ Accounting for derivative instruments that come into existence as a result of the BEE transaction, for example, options granted in respect of the shares issued.