

To	David Sidwell, Chairman—Due Process Oversight Committee
From	Alan Teixeira, Senior Director of Technical Activities ateixeira@ifrs.org
Subject	IFRIC Draft Interpretation <i>Levies charged by public authorities on entities that operate in a specific market</i>
Date	30 May 2012

On 31 May 2012, the Board is planning to publish the IFRIC Draft Interpretation *Levies charged by public authorities on entities that operate in a specific market*.

In this memorandum I wish to:

- (a) explain to the Due Process Oversight Committee (the DPOC) the steps in the due process we have taken before the publication of the IFRIC Draft Interpretation (see Appendix A) and to confirm that we have complied with the due process requirements;
- (b) give the DPOC a summary of the proposals in the Draft Interpretation (see Appendix B);
- (c) confirm to the DPOC that the IFRS Interpretations Committee (the Committee) assessed the issue against the criteria in the IFRS Interpretations Committee Due Process Handbook (updated in December 2010) for adding an issue to its agenda; and
- (d) alert the DPOC of the planned 90-day exposure period (in accordance with the provisions in the draft revised Due Process Handbook).

The document about to be published is an exposure draft. Accordingly, this memo is primarily for information purposes. The comment period exceeds the normal comment period for an interpretation by 50 per cent and the issue was developed as a normal part of the implementation activities of the Interpretations Committee.

Due process steps

In Appendix A we have summarised the due process steps that we have taken in developing the IFRIC Draft Interpretation *Levies charged by public authorities on entities that operate in a specific market*. For summarising these steps and thereby demonstrating that we have met all the due process requirements, we used the reporting

template ‘Development and publication of a **Draft** Interpretation’ in ‘Appendix 4—Due Process Protocol’ of the draft of the revised Due Process Handbook.

The proposals

The Draft Interpretation addresses the accounting for levies charged by public authorities other than income taxes which have the following characteristics:

- (a) they are paid by entities that operate in a specific market identified by the legislation (such as a specific country, a specific region, or a specific market in a specific country);
- (b) they are triggered when a specific activity identified by the legislation occurs (such as operating in a specific country or operating in a specific market in a specific country); and
- (c) the calculation basis of the levy uses data for the current period or a previous reporting period, such as the gross amount of revenues, assets or liabilities.

The consensus in the Draft Interpretation provides guidance on the recognition of liabilities to pay such levies. The Draft Interpretation would be required to be applied retrospectively.

Adding an issue to the Committee’s agenda

The Committee’s Due Process Handbook sets out the criteria for assessing proposed agenda items:

- 24 The Interpretation Committees decides after debate in a public meeting whether to add an issue to its agenda.
- 25 The Committee assesses proposed agenda items against the following criteria. An item does not have to satisfy all the criteria to qualify for the agenda.
 - (a) The issue is widespread and has practical relevance.
 - (b) The issue indicates that there are significantly divergent interpretations (either emerging or already existing in practice). The Interpretations Committee will not add an item to its agenda if IFRSs are clear, with the result that divergent interpretations are not expected in practice.
 - (c) Financial reporting would be improved through elimination of the diverse reporting methods.

- (d) The issue can be resolved efficiently within the confines of existing IFRSs and the Framework, and the demands of the interpretation process.
- (e) It is probable that the Interpretations Committee will be able to reach a consensus on the issue on a timely basis.
- (f) If the issue relates to a current or planned IASB project, there is a pressing need to provide guidance sooner than would be expected from the IASB's activities. The Interpretations Committee will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the Interpretations Committee requires to complete its due process.

At its public meeting in July 2011 the Committee assessed the issue against the criteria and concluded that the criteria were met.

Comment period

The standard comment period of Draft Interpretations is 60 days, and this is described on the public website and in the IFRIC Due Process Handbook. The draft of the revised Due Process Handbook makes reference to a 90-day comment period. The Committee decided that the Draft Interpretation would be made available for public comment for at least 90 days from the date of publication of the Draft Interpretation.

Appendix A

Confirmation of Due Process Steps followed in the development of the IFRIC Draft Interpretation *Levies charged by public authorities on entities that operate in a specific market*.

The following table sets out the due process steps followed by the IASB in the development of the IFRIC Draft Interpretation *Levies charged by public authorities on entities that operate in a specific market*.

Step	Required/ Optional	Metrics or evidence	Protocol for and evidence provided to DPOC	Actions
Interpretations Committee meetings held in public, with papers available for observers. All decisions are made in public session.	Required	Meetings held to discuss topic. Project Website contains a full description with up-to-date information on the project. Meeting papers posted in a timely fashion.	DPOC reviews comments from interested parties on Interpretations Committee due process as appropriate.	The issue was discussed on the basis of agenda papers presented to the IFRS Interpretations Committee during its meetings from May 2011 to May 2012. Agenda papers were posted in time on the IASB public website. A specific related issue was also discussed by the Board in its February 2012 meeting. IFRIC Updates summarising the tentative conclusions reached by the Interpretations Committee were released on the IASB public website after each meeting. A ballot Draft Interpretation was presented in the May 2012 agenda paper and the consensus reached by the Committee members was reproduced in the May 2012 IFRIC Update.
Drafting quality assurance steps are adequate	Required	Translations team included in review process.	DPOC receives summary report on due process steps before a draft interpretation is issued.	The Draft Interpretation agreed on by the Committee members was posted to the Board Sharepoint site (in the Ballot documents area) on 18 May 2012. A copy of the draft interpretation was sent to the Translations team on 21 May 2012.
Drafting quality assurance steps are adequate	Required	XBRL team included in review process.	DPOC receives summary report on due process steps before a draft interpretation is issued.	The Draft Interpretation agreed on by the Committee members has been posted to the Board Sharepoint site (in the Ballot documents area) on 18 May 2012. A copy of the draft

Step	Required/ Optional	Metrics or evidence	Protocol for and evidence provided to DPOC	Actions
				<p>interpretation was sent to the XBRL team on 21 May 2012.</p> <p>The Draft Interpretation does not contain any new disclosure requirements. Therefore, the Draft Interpretation does not require any work for the XBRL team.</p>
Drafting quality assurance steps are adequate	Optional	External reviewers used to review drafts and comments collected and considered by the Interpretations Committee	DPOC receives summary report on due process steps before an draft interpretation is issued, including the extent to which external reviewers have been used in the drafting process.	N/A
Drafting quality assurance steps are adequate	Optional	Review draft made available to members of IFASS and comments collected and considered by the Interpretations Committee	DPOC receives summary report on due process steps before an draft interpretation is issued.	N/A
Drafting quality assurance steps are adequate	Optional	Review draft posted on project website.	DPOC receives summary report on due process steps before an draft interpretation is issued.	N/A
Draft interpretation has appropriate comment period.	Required	<p>Interpretations Committee sets comment period for response.</p> <p>Any period outside the normal comment period requires an explanation from the Interpretations Committee to DPOC, and subsequent approval.</p>	DPOC receives notice of any change in comment period length and approval if required.	90-day comment period
IASB members polled to identify any objections to releasing the draft Interpretation	Required	Poll undertaken.	If sufficient IASB members object the matter is discussed by the Board and the outcome is communicated to the DPOC.	The Draft Interpretation agreed on by the Committee members has been posted to the Board Sharepoint site (in the Ballot documents area) on 18 May 2012 and objections were requested by 28 May 2012.
Due process steps reviewed by Interpretations Committee	Required	Summary of all due process steps discussed by the Interpretations committee before an IFRS is issued	DPOC receives summary report on due process steps before a draft Interpretation is issued.	Review not performed as not yet required by current Due Process. However, this report confirms that all due process steps were taken.
Press release to announce publication of draft	Optional	Press release published	DPOC informed of the release of the draft Interpretation.	A press release will be published on 31 May 2012.

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Protocol for and evidence provided to DPOC</i>	<i>Actions</i>
Interpretation.		Media coverage		
Draft Interpretation published	Required	Draft Interpretation posted on Interpretations Committee website	DPOC informed of the release of the draft Interpretation.	The Draft Interpretation (and an invitation to comment) will be posted to the public IASB website on 31 May 2012.

Appendix B

The Draft Interpretation *Levies charged by public authorities on entities that operate in a specific market* contains the following sections:

- (a) Background information on the issues discussed;
- (b) Scope of the Draft Interpretation;
- (c) Issues discussed in the Draft Interpretation;
- (d) Consensus reached by the IFRS Interpretations Committee;
- (e) Effective date and transition;
- (f) Illustrative examples;
- (g) Basis for Conclusions summarising the IFRS Interpretations Committee's considerations in reaching its consensus.

We provide below a summary of the proposals included in the Draft Interpretation.

Background

A public authority may impose a levy on entities that operate in a specific market. The IFRS Interpretations Committee has received requests for guidance on the accounting for levies in the financial statements of the entity paying the levy. The question relates to when the liability to pay a levy should be recognised and to the definition of a present obligation in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Scope

The Draft Interpretation addresses the accounting for levies that are recognised in accordance with the definition of a liability provided in IAS 37. It does not address the accounting for income taxes that are within the scope of IAS 12 *Income taxes* (ie taxes based on a taxable profit).

Consensus

In reaching its consensus in the Draft Interpretation, the IFRS Interpretations Committee made the following clarifications:

- (a) The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy as identified by the legislation.
- (b) An entity does not have a constructive obligation to pay a levy that will arise from operating in a future period as a result of being economically compelled to continue operating in that future period.

- (c) The preparation of financial statements under the going concern principle does not imply that an entity has a present obligation to continue operating in the future and therefore does not lead to the recognition of a liability at a reporting date for levies that will arise from operating in a future period.
- (d) The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (ie if the activity that triggers the payment of the levy as identified by the legislation occurs over a period of time).
- (e) The liability to pay a levy that is in the scope of this interpretation gives rise to an expense.
- (f) The same recognition principles shall be applied in the interim financial statements as are applied in the annual financial statements.