

STAFF PAPER

IFRS Interpretations Committee
Meeting

November 2011

Project	Levies charged for participation in a specific market – Cover paper		
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Introduction

1. The IFRS Interpretations Committee (the Committee) received a request to clarify whether, under certain circumstances, *IFRIC 6 Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* should be applied by analogy to other levies charged for participation in a market on a specified date to identify the event that gives rise to a liability.
2. The concern relates to when a liability should be recognised and to the definition of a present obligation in *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*.
3. The Committee decided to add this issue to its agenda in July 2011 with a view to developing guidance. The Committee will consider later if it wants to address this issue in the interim financial statements.

Purpose of the papers

4. The objective of these papers is to provide an analysis of the accounting treatment applicable to levies charged for participation in a market on a specified date.
5. These papers do not address:

- (a) the accounting for levies that fall within the scope of IAS 12 *Income Taxes* (ie levies that are based on taxable profits);
 - (b) the accounting treatment applicable in the interim financial statements;
 - (c) the measurement of the liability.
6. The objective of these papers is not to provide specific answers to each of the situations reported to us. Instead, we aim to provide guidance to help preparers of financial statements to apply IFRSs to a range of facts and circumstances.

Structure of the papers

7. For ease of reference, we have split the analysis as follows:
- (a) Agenda paper 2A addresses the following issue: when should the liability for the obligation to pay a levy be recognised?
 - (b) Agenda paper 2B addresses the following issue: is the liability for the obligation to pay a levy associated with an asset or an expense?

Decisions taken in the previous meetings

8. At the July 2011 meeting, the Committee discussed whether the obligating event is the participation in the market on a specified date specified by the legislation, or whether other factors create an earlier obligation. The Committee decided to add this issue to its agenda with the aim of developing guidance.
9. The Committee also tentatively concluded that IFRIC 6 is not directly applicable, but because IFRIC 6 is an interpretation of IAS 37, any conclusions drawn on the application of IAS 37 to the levies should be consistent with the conclusions drawn in IFRIC 6.
10. At the September 2011 meeting, the Committee continued its discussions and noted the following:

- (a) Any guidance developed on this matter should only address levies charged by public authorities. The guidance should not address payments related to private contractual arrangements.
 - (b) Economic compulsion to participate in the market in the next period does not create a constructive obligation and does not cause the recognition of a liability in IAS 37. The Committee will consider whether any guidance developed could or should also clarify this point.
 - (c) The obligation to pay a levy does not automatically create an asset.
11. The Committee directed the staff to further analyse:
- (a) Whether the obligating event arises at a point in time or whether in certain circumstances the obligating event arises progressively over time. The Committee also asked the staff to clearly distinguish recognition of the liability from measurement of the liability.
 - (b) Circumstances in which the obligation is associated with an activity in multiple periods; the staff were asked to identify the obligating event that creates the present obligation in accordance with IAS 37.
 - (c) With regard to the question of the 'debit' side of the liability, the Committee noted that the obligation to pay a levy may be associated with an expense or with an asset, depending on the characteristics of each levy. The Committee directed the staff to further analyse in which circumstances the obligation to pay a levy might be associated with an expense or an asset. In particular, the Committee asked the staff to distinguish between exchange and non-exchange transactions with public authorities.
 - (d) Whether a distinction can be made between payments that are analogous to taxes and those that are analogous to licences.
 - (e) Whether the principles in IAS 12 applicable to income taxes may be relevant to the analysis of the accounting treatment applicable to the levies.

Question for the Committee

Assuming that the Committee reaches an agreement on both papers, what should be the next steps?

Characteristics of the levies considered

12. The levies considered in these papers have the following characteristics:
 - (a) the participation in the market on a specified date or period triggers the payment of the levy;
 - (b) the levy is an annual recurring tax (it might be payable by instalments);
 - (c) the calculation basis of the levy is based upon financial data for the current or a previous reporting period.
13. To avoid confusion between the date or period in which the entity participates in the market and the date or period that is used to calculate the amount of the levy, the Committee decided to use the following terms:
 - (a) Activity date/period: this is the date or period in which the entity's participation in the event/market/activity occurs (in IFRIC 6 this is called the measurement period);
 - (b) Calculation date/period: this is the date or period of the financial data used to calculate the amount of the levy.
14. Examples of levies considered in these papers are provided in paper 2A.