

---

Contact(s) Patrick Le Flao pleflao@ifrs.org +44 (0)20 7246 6935

---

Project **Levies charged for participation in a market on a specified date**

Topic **Recognition of assets**

---

## Purpose of the paper

1. This paper discusses the following issue: is the liability for the obligation to pay a levy associated with an asset or an expense?

## Is the liability for the obligation to pay a levy associated with an asset or an expense?

2. As mentioned in Agenda paper 2, for the levies considered in these papers, we think that the obligation to pay a levy is associated with a right to participate in a market for a specified period.
3. Thus, when the liability is recognised, the issue is to determine whether the entity has already consumed the benefit and an expense should be recognised, or whether the entity will consume the benefit in the future and an asset should be recognised, or a combination of the two.
4. According to the *Conceptual Framework* (paragraph 4.4 (a), 4.5 and 4.6):
  - (a) 'An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity'.
  - (b) 'The definitions of an asset and a liability identify their essential features but do not attempt to specify the criteria that need to be met before they are recognised in the balance sheet'.

---

This paper has been prepared by the technical staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IFRS Interpretations Committee or the IASB. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination.

Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*.

Interpretations are published only after the IFRS Interpretations Committee and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in *IASB Update*.

## IASB Staff paper

- (c) 'In assessing whether an item meets the definition of an asset, liability or equity, attention needs to be given to its underlying substance and economic reality and not merely its legal form'.
5. Because the right to participate in a market is intangible in nature, we think that an analysis of the recognition criteria specified in IAS 38 should be performed in order to determine whether this right meets the definition of an intangible asset. In order to meet the definition of an intangible asset, the right granted to the entity should:
- (a) be identifiable;
  - (b) be controlled by the entity; and
  - (c) generate future economic benefits.

### ***Identifiability***

6. In order to be identifiable, the right to participate in the market should be either:
- (a) separable (ie capable of being sold, transferred, licensed...); or
  - (b) arise from contractual or other legal rights (regardless of whether those rights are transferable or separable).
7. We think that the right to participate in a market would unlikely be separable unless it is transferable. Nevertheless, it is a legal right granted by the public authority that levies the tax.

### ***Control***

8. An asset is controlled if the entity has the power to obtain the future economic benefits and to restrict the access of others to those benefits.
9. In our view, the entity that pays the levy has the power to obtain the benefits arising from participating in the market, for example through the sales on the market for a specific period. It cannot be excluded from that market or prevented from participating in the market. Other entities cannot participate in the market on the basis of the entity's levy. They must pay their own levy if they want to participate in the market.

***Future economic benefits***

10. The question is whether the degree of certainty that economic benefits will flow to the entity is sufficient to warrant the recognition of an asset.
11. In our view, the right to participate in the market gives the entity the ability to generate revenues from customers in that specific market. In our view, this situation is not different from any non-transferable licence to operate: entities assess the likelihood of being able to use the licence to trade profitably, and capitalise on that basis.

***Conclusion***

12. The transaction between an entity and the public authority reflects the receipt of a right to participate/trade in a particular market in exchange for the payment of the levy. To the extent that the entity has received the right and either paid or established a liability for the cost of that right but not yet consumed all of the benefits of the right, it should recognise an intangible asset for the benefits it will consume in the future. This intangible asset should be amortised in the period over which the right is granted.

**Question for the Committee**

Does the Committee agree that an entity should recognise an intangible asset to the extent that the entity has received the right to participate in the market and either paid or established a liability for the cost of that right but not yet consumed all of the benefits?