

## STAFF PAPER

November 2012

## IASB Meeting

Project	Draft Interpretation on Levies		
Paper topic	Report to the IASB		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

## Introduction

1. In May 2012, the IFRS Interpretations Committee (the Interpretations Committee) published a draft interpretation on the accounting for levies charged by public authorities on entities that participate in a specific market. The comment period ended on 5 September 2012.
2. At the November 2012 Interpretations Committee meeting, the Interpretations Committee was presented with a summary and an analysis of the comments received on the draft interpretation.
3. The objective of this paper is not to ask the IASB to make any decisions regarding this project. It is to report to the IASB:
  - (a) some of the comments made by respondents to the draft interpretation; and
  - (b) a summary of the decisions taken by the Interpretations Committee during its November 2012 meeting.
4. We will, however, ask the IASB if it has any advice that it wants to give to the Interpretations Committee as the Interpretations Committee continues its redeliberations of the draft interpretation.

## Update on the levies project

5. The Interpretations Committee received 53 comment letters on the draft interpretation. Almost all of these comment letters agreed that the draft interpretation is a technically correct analysis of how the requirements in IAS 37 should be applied to levies. However, about half of the respondents, whilst acknowledging the technically correct analysis set out in the draft interpretation, disagreed with the proposed accounting. They think that the proposed accounting would not reflect the substance of the

transactions and therefore would not lead to useful information for users of the financial statements.

6. A particular concern identified by respondents who think that the proposed accounting in the draft interpretation does not reflect the substance of the transaction is in the circumstance where the draft interpretation would require recognition of the expense and the liability to pay a levy at a point in time at the end of the year. In such situations, the entity would not be able to accrue the levy expense in previous interim periods. They think that this outcome in profit or loss is not a fair representation of the economic effects of such levies and does not give useful information to users, especially for annual recurring levies. For annual recurring levies, those respondents think that the substance of such a levy is that it is a charge associated with a specific period (and not a charge triggered on a specific date) and therefore the levy expense should be recognised progressively in profit or loss over that period.
7. Appendix A contains a draft summary of the Interpretations committee's discussion on this project at the November 2012 Interpretations Committee meeting.

## Question to the IASB

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Does the IASB have any advice or comments it would like to give the Interpretations Committee as the Interpretations Committee continues its redeliberations of the draft interpretation?

## Appendix A – IFRS Interpretations Committee Staff Update - Levies

A1. The following is an IFRS Interpretations Committee staff update report of the Interpretations Committee's discussion of the comments received on the draft interpretation on levies. This will be included in IFRIC Update for November 2012 after review by Interpretations Committee members.

### **IAS 37 Provisions, Contingent liabilities and Contingent Assets —Interpretation on levies**

In May 2012, the Interpretations Committee published a draft interpretation on the accounting for levies charged by public authorities on entities that participate in a specific market. The comment period ended on 5 September 2012.

At this meeting, the Interpretations Committee was presented with a summary and an analysis of the comments received on the draft interpretation. The Interpretations Committee tentatively decided that:

- it should rediscuss the accounting for levies with minimum thresholds;
- the final interpretation should address the accounting for levies that are within the scope of IAS 37 and levies whose timing and amount is certain;
- the final interpretation should not address the accounting for liabilities arising from emissions trading schemes but should address other carbon levies;
- the term 'levy' should be defined in the final interpretation;
- the final interpretation should provide guidance on the accounting for the liability to pay a levy in annual and interim financial statements;
- it should confirm the guidance provided in the consensus of the draft interpretation regarding the accounting for the liability to pay a levy;
- further impact analysis of the final interpretation on the accounting for levies is not needed;
- the final interpretation should not require additional disclosures specific to levies;
- it should not propose to introduce specific requirements regarding levies in IAS 34; and
- it should ask the IASB to consider the issues regarding the accounting for levies when developing the definition and recognition criteria for a liability in its project on the Conceptual Framework.

The staff will prepare a paper to be presented at a future meeting that:

- provides an analysis of the different alternatives on the accounting for levies with minimum thresholds;
- discusses whether the final interpretation should address the accounting for levies that are analysed as exchange transactions and whether it should refer to other IFRSs with regard to the accounting for the debit side of the liability;
- proposes a definition for the term 'levy'; and
- proposes an updated version of the interpretation based on the Interpretations Committee's tentative decisions.

The Interpretations Committee noted that a significant number of respondents to the draft interpretation think that the result of the accounting proposed does not provide a fair representation of the economic effects of levies when the liability and the corresponding expense are recognised at a point in time, notwithstanding the acknowledgement of those respondents that the proposed accounting in the draft interpretation is a technically correct interpretation of the requirements in IAS 37. Those respondents think that the substance of a recurring levy is that it is a charge associated with a specific period (and not a charge triggered on a specific date). The Interpretations Committee directed the staff to report those comments from interested parties to the IASB.