STAFF PAPER

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Project	**IAS 37 *Provisions, Contingent Liabilities and Contingent Assets***
Paper topic	IFRS Interpretation X *Levies*

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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 its March 2013 meeting, the Interpretations Committee completed its redeliberations and reached a consensus on the levies interpretation. The balloting of the interpretation took place in March 2013. The final interpretation is shown in Appendix A of this paper. Twelve Interpretations Committee members voted to approve the interpretation, one Interpretations Committee member decided to object to the interpretation and one decided to abstain.
3. The objective of this paper is to ask the IASB members whether they agree to ratify the levies interpretation.

Structure of the paper

4. The structure of the paper is the following:
   - (a) Summary of the Interpretations Committee's redeliberations;
   - (b) Comparison between the final interpretation and the draft interpretation published in May 2012;
   - (c) Objections to the interpretation;

(d) Due process followed for the publication of the interpretation;

(e) Ratification of the interpretation;

(f) Effective date of the interpretation;

(g) Appendix A: final interpretation on levies.

Summary of the Interpretations Committee's redeliberations;

5. At its November 2012 meeting, the Interpretations Committee was presented with a summary and an analysis of the comments received on the draft interpretation. The Interpretations Committee decided that:

   (a) 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;

   (b) an entity should not be required to apply the final interpretation to liabilities arising from emissions trading schemes; and

   (c) it should confirm the guidance provided in the consensus of the draft interpretation regarding the accounting for the liability to pay a levy.

6. At its January 2013 meeting, the Interpretations Committee decided that:

   (a) levies should be defined as 'transfers of resources imposed by governments on entities in accordance with laws and/or regulations, other than (i) levies that are within the scope of other Standards (such as income taxes within the scope of IAS 12 *Income Taxes*) and (ii) fines or other penalties imposed for breaches of the laws and/or regulations'.

   (b) the final Interpretation should address the accounting for the liability to pay a levy but should refer to other Standards to decide whether the liability to pay a levy gives rise to an asset or to an expense;

   (c) the final Interpretation should address the accounting for levies with minimum thresholds. The Interpretations Committee decided that the accounting for levies with minimum thresholds should be consistent with the principles established in the consensus of the draft Interpretation. In particular, according to the draft Interpretation, the obligating event is the activity that triggers the payment of the levy, as identified by the legislation. The Interpretations Committee concluded that for a levy that is triggered if a minimum activity threshold is reached (such as a minimum amount of revenues, sales or outputs produced), the obligating event that gives rise to a liability to pay a levy is the reaching of the minimum activity threshold; and

(d) the same recognition principles should be applied in the interim financial statements as are applied in the annual financial statements, as stated in IAS 34 *Interim Financial Reporting*.

Comparison between the final interpretation and the draft interpretation published in May 2012

7. We provide below a comparison between the final interpretation and the draft interpretation published in May 2012. The comparison focuses on the scope, the consensus and the examples provided in the interpretation.

Scope

8. The definition of a levy has been redrafted but it is similar to the definition provided in the draft interpretation. The outcome is that both the final and draft interpretation address the accounting for liabilities to pay levies other than those that are within the scope of other standards (such as income taxes within the scope of IAS 12).

9. However, the following changes have been made to the scope of the interpretation:

(a) the final interpretation addresses the accounting for liabilities to pay levies with minimum thresholds. Those levies were excluded from the scope of the draft interpretation. See also subparagraph ‘Consensus’ below;

(b) the final interpretation addresses the accounting for liabilities to pay levies, regardless of whether levy costs are recognised as assets or expenses.

(c) the final interpretation does not address the accounting for costs arising from the recognition of liabilities to pay levies. It refers to other Standards to determine whether the liability to pay a levy gives rise to an asset or to an expense; and

(d) the final interpretation includes a scope exemption for liabilities arising from emissions trading schemes. An entity is not required to apply the interpretation to those liabilities. There was no scope exemption in the draft interpretation.

Consensus

10. The Interpretations Committee confirmed the consensus in the draft interpretation regarding the accounting for the liability to pay a levy (including the accounting in interim financial reports).

11. The consensus was amended to reflect the changes to the scope of the interpretation. In particular, a paragraph was added in the consensus to address the accounting for liabilities to pay levies with minimum thresholds.

Examples

12. Minor amendments were made to Examples 1-3 so that they do not address whether costs arising from levies are assets or expenses. Example 4 was added to illustrate the accounting for liabilities to pay levies with minimum thresholds.

Objections to the interpretation

13. The Interpretations Committee noted that some 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 is recognised at a point in time and gives rise to an expense at that date, 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 an expense associated with a specific period (and not an expense

triggered on a specific date). The Interpretations Committee concluded that the Interpretation is needed to address the diversity in practice and that it provides consistent information about an entity's obligations to pay levies. The Interpretations Committee also observed that the Interpretation does not address the accounting for the costs arising from recognising a liability to pay a levy and that other Standards would determine whether the recognition of the liability to pay a levy gives rise to an asset or an expense.

14. However, one Interpretations Committee members decided to object to the publication of the interpretation and one decided to abstain. Although they agree that the interpretation is technically correct and appropriately reflects existing standards, specifically IAS 37, they think that the result of the accounting proposed does not provide a fair representation of the economic effects of levies in the interim financial report when the liability is recognised at a point in time and gives rise to an expense at that date.

15. One of those Interpretations Committee members observes that at its February 2012 meeting, the IASB expressed support for recognising in the annual financial statements levies subject to a revenue threshold progressively as the entity makes progress towards the revenue threshold provided that it is probable that the threshold will be met. That member thinks that the accounting for levies with minimum thresholds as proposed in the interpretation does not meet the IASB's expectations. That member thinks that the issue is mainly related to interim financial reports and that a limited amendment to IAS 34 (based on the rationale developed in paragraphs B7 and B12 of IAS 34) should be introduced to respond to the concerns raised by constituents. That member also notes that the accounting for levies was discussed as part of the Conceptual Framework project at the February 2013 IASB meeting and that some of the comments made by IASB members in that meeting are consistent with his concerns.

16. Another Interpretations Committee member believes that the accounting for taxes paid to governments should have been addressed comprehensively. Governments raise cash using various forms of taxes such as income taxes and other types of levies so as to meet certain annual budgetary requirements. A wide range of new taxes have been introduced recently in various jurisdictions, some for which this Interpretations Committee member thinks that it is debatable whether they meet the definition of income taxes or not. This Interpretations Committee member

notes that the accounting treatment of a tax paid to governments will depend on two different sets of requirements (ie IAS 12 versus IAS 37, depending on whether the levy meets the definition of an income tax in accordance with IAS 12), whereas the difference in objective and substance of the tax may be unclear. Nonetheless, this Interpretations Committee member acknowledges that investigating if, and when, the difference in treatment is appropriate would have required undertaking a much broader project about the accounting for taxes paid to governments, which was not identified in the Board's priorities. This Interpretations Committee member also notes that IAS 34 includes contradictions in its approach. Whilst it establishes a discrete approach for most of the items reported at an interim period, it applies an integral (smoothing) approach to contingent lease payments and income taxes recognised at an interim period. The interpretation will require the application of a discrete approach to levies at an interim period, thereby creating an additional difference in treatment between those taxes that will fall into the scope of the interpretation and those taxes paid to government that meet the definition of an income tax.

Due process followed for the publication of the interpretation

17. In Appendix B we have summarised the due process steps that we have taken in developing the interpretation. This appendix confirms that the due process requirements as described in the Due Process Handbook (February 2013) have been complied with.

Question 1 for the IASB
1. Is the IASB satisfied that all required Due Process steps applicable have been complied with?

Ratification of the interpretation

18. The objective of this paper is to ask the IASB members whether they agree to ratify the levies interpretation. Approval by the IASB requires at least ten IASB

members to be in favour. The IASB votes on the interpretation as submitted by the Interpretations Committee. If any IASB members decides to dissent from ratifying the interpretation, the reason for the dissent will be included in the approvals section of the interpretation.

Question 2 for the IASB
2. Does the IASB agree to ratify the interpretation on levies presented in Appendix A of this paper?

Effective date of the interpretation

19. The Interpretations Committee recommend that an entity should apply the interpretation for annual periods beginning on or after 1 January 2014. Earlier application would be permitted.

Question 3 for the IASB
3. Does the IASB agree that the interpretation should be applied for annual periods beginning on or after 1 January 2014?

Appendix A: Final version of the interpretation on levies

IFRIC INTERPRETATION X *Levies*

References

- IAS 1 *Presentation of Financial Statements*
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- IAS 12 *Income Taxes*
- IAS 20 *Accounting for Governments Grants and Disclosures of Government Assistance*
- IAS 24 *Related Party Disclosures*
- IAS 34 *Interim Financial Reporting*
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*

Background

1. A government may impose a levy on an entity. The IFRS Interpretations Committee received requests for guidance on the accounting for levies in the financial statements of the entity that is paying the levy. The questions relate to when to recognise a liability to pay a levy that is accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Scope

2. This Interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain.
3. This Interpretation does not address the accounting for the costs arising from recognising a liability to pay a levy. Entities should apply other Standards to decide whether the recognition of a liability to pay a levy gives rise to an asset or to an expense.

4. For the purposes of this Interpretation, a levy is an outflow of resources embodying economic benefits imposed by governments on entities in accordance with legislation (ie laws and/or regulations), other than:

   (a) those outflows that are within the scope of other Standards (such as income taxes within the scope of IAS 12 *Income Taxes*); and

   (b) fines or other penalties imposed for breaches of the legislation.

‘Government’ refers to government, government agencies and similar bodies whether local, national or international.

5. A payment made by an entity for the acquisition of an asset, or for the rendering of services under a contractual agreement with a government, does not meet the definition of a levy.

6. An entity is not required to apply this Interpretation to liabilities arising from emissions trading schemes.

Issues

7. To clarify the accounting for a liability to pay a levy, this Interpretation addresses the following issues:

   (a) What is the obligating event that gives rise to the recognition of a liability to pay a levy?

   (b) Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?

   (c) Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?

   (d) Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?

   (e) What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

   (f) Are the principles for recognising a liability to pay a levy the same in the annual financial statements and in the interim financial report?

Consensus

8. 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. For example, if the activity that triggers the payment of the levy is the generation of revenues in the current period and the calculation of that levy is based on revenues generated in a previous period, the obligating event for that levy is the generation of revenues in the current period. The generation of revenues in the previous period is necessary, but not sufficient, to create a present obligation.

9. An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of being economically compelled to continue operating in that future period.

10. The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

11. 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). For example, if the obligating event is the generation of revenues over a period of time, the corresponding liability is recognised as the entity generates those revenues.

12. If an obligation to pay a levy is triggered if a minimum threshold is reached, the accounting for the liability arising from that obligation shall be consistent with the principles established in the consensus of this Interpretation (in particular paragraphs 8 and 11). For example, if the obligating event is the reaching of a minimum activity threshold (such as a minimum amount of revenues, sales or outputs produced), the corresponding liability is recognised when that minimum activity threshold is reached.

13. An entity shall apply the same recognition principles in the interim financial report as in the annual financial statements. As a result, in the interim financial report, a liability to pay a levy:

(a) shall not be recognised if there is no present obligation to pay the levy at the end of the interim reporting period; and

(b) shall be recognised if a present obligation to pay the levy exists at the end of the interim reporting period.

14. An entity shall recognise an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

Appendix A

Effective date and transition

This appendix is an integral part of the Interpretation and has the same authority as the other parts of the Interpretation.

A1. An entity shall apply this Interpretation for annual periods beginning on or after [date]. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact.

A2. Changes in accounting policies resulting from the initial application of this Interpretation shall be accounted for retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

IFRIC X Levies

Illustrative examples

These examples accompany, but are not part of, the Interpretation.

IE1 The objective of these examples is to illustrate the accounting for a liability to pay a levy in the annual financial statements and in the interim financial report.

Example 1—A levy is triggered progressively as the entity generates revenues

Entity A has an annual reporting period that ends on 31 December. A levy is triggered progressively as Entity A generates revenues in 20X1. The amount of the levy is calculated by reference to revenues generated by Entity A in 20X1.

In this example, the liability is recognised progressively during 20X1 as the entity generates revenues, because the obligating event, as identified by the legislation, is the generation of revenues during 20X1. At any point in 20X1, Entity A has a present obligation to pay a levy on revenues generated to date. Entity A has no present obligation to pay a levy that will arise from generating revenues in the future.

In the interim financial report (if any), the liability is recognised progressively as the entity generates revenues. Entity A has a present obligation to pay the levy on revenues generated from 1 January 20X1 to the end of the interim period.

Example 2—A levy is triggered in full as soon as the entity generates revenues

Entity B has an annual reporting period that ends on 31 December. A levy is triggered in full as soon as Entity B generates revenues in 20X1. The amount of the levy is calculated by reference to revenues generated by Entity B in 20X0. Entity B generated revenues in 20X0 and in 20X1 starts to generate revenues on 3 January 20X1.

In this example, the liability is recognised in full on 3 January 20X1 because the obligating event, as identified by the legislation, is the first generation of revenues in 20X1. The generation of revenues in 20X0 is necessary, but not sufficient, to create a present obligation to pay a levy. Before 3 January 20X1, Entity B has no present obligation to pay a levy. In other words, the activity that triggers the payment of the levy, as identified by the legislation, is the point at which Entity B first generates revenues in 20X1. The generation of revenues in 20X0 is not the activity that triggers the payment of the levy and the recognition of the liability. The amount of revenues generated in 20X0 only affects the measurement of the liability.

In the interim financial report (if any), the liability is recognised in full in the first interim period of 20X1 because the liability is recognised in full on 3 January 20X1.

Example 3—A levy is triggered in full if the entity operates as a bank at a specified date

Entity C has an annual reporting period that ends on 31 December. A levy is triggered in full only if Entity C operates as a bank at the end of the annual reporting period. The amount of the levy is calculated by reference to amounts in the statement of financial position of Entity C at the end of the annual reporting period. The end of the annual reporting period of Entity C is 31 December 20X1.

In this example, the liability is recognised on 31 December 20X1 because the obligating event, as identified by the legislation, is operating as a bank at the end of the annual reporting period. Before the end of the annual reporting period, Entity C has no present obligation to pay a levy, even if it is economically compelled to continue to operate as a bank in the future. In other words, the activity that triggers the payment of the levy, as identified by the legislation, is operating as a bank at the end of the annual reporting period, which does not occur until 31 December 20X1. The conclusion would not change even if the amount of the liability is based on the length of the reporting period, because the obligating event is operating as a bank at the end of the annual reporting period.

In the interim financial report (if any), the liability is recognised in full in the interim period including 31 December 20X1 because the liability is recognised in full on 31 December 20X1.

Example 4—A levy is triggered if the entity generates revenues above a minimum amount of revenues

Entity D has an annual reporting period that ends on 31 December. A levy is triggered if Entity D generates revenues above CU50 million[1] in 20X1. The amount of the levy is calculated by reference to revenues above CU50 million generated by Entity D in 20X1, eg the levy rate is 0 per cent for the first CU50 million revenues generated (below the threshold) and 2 per cent above CU50 million revenues. Entity D's revenues reach the revenue threshold of CU50 million on 17 July 20X1.

In this example, the liability is recognised between 17 July 20X1 and 31 December 20X1 as the entity generates revenues above the threshold because the obligating event, as identified by the legislation, is the activity undertaken after the threshold is reached (ie the generation of revenues after the threshold is reached). The amount of the liability is based on the revenues generated to date that exceed the threshold of CU50 million revenues.

In the interim financial report (if any), the liability is recognised between 17 July 20X1 and 31 December 20X1 as the entity generates revenues above the threshold.

<u>Variation:</u>

Same fact pattern as above (ie a levy is triggered if Entity D generates revenues above CU50 million in 20X1), except that the amount of the levy is calculated by reference to all revenues generated by Entity D in 20X1 (ie including the first CU50 million revenues generated in 20X1).

In this example, the liability for the payment of the levy related to the first CU50 million revenues is recognised on 17 July 20X1 when the threshold is met, because the obligating event, as identified by the legislation, for the payment of that amount is the reaching of the threshold. The liability for the payment of the levy related to revenues generated above the threshold is recognised between 17 July 20X1 and 31 December 20X1 as the entity generates revenues above the threshold because the obligating event, as identified by the legislation, is the activity undertaken after the threshold is reached (ie the generation of revenues after the threshold is reached). The amount of the liability is based on the revenues generated to date, including the first CU50 million revenues. The same recognition principles apply in the interim financial report (if any) as in the annual financial statements.

[1] In this Interpretation, currency amounts are denominated in 'currency units' (CU).

Basis for Conclusions on IFRIC X *Levies*

This Basis for Conclusions accompanies, but is not part of, IFRIC X.

Introduction

BC1 This Basis for Conclusions summarises the considerations of the IFRS Interpretations Committee (the Interpretations Committee) in reaching its consensus. The Interpretations 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 identify the obligating event that gives rise to the recognition of a liability for other levies imposed by governments on entities. The questions relate to when to recognise a liability to pay a levy that is accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

BC2 In particular, the request was for the Interpretations Committee to clarify how an entity should account for levies whose calculation is based on financial data relating to a period before the period containing the activity that triggers the payment of the levy. This is the case, for example, if the activity that triggers the payment of the levy, as identified by the legislation, occurs in 20X1 and the calculation of the levy is based on financial data for 20X0 (see Illustrative Example 2).

BC3 The Interpretations Committee was informed that there was diversity in practice in how entities account for the obligation to pay such a levy.

Scope

BC4 One of the questions raised in the submission was how to account for levies whose calculation basis uses data such as the gross amount of revenues, assets or liabilities. The Interpretations Committee noted that those levies do not meet the definition of income taxes provided in IAS 12 *Income Taxes* because they are not based on taxable profit. In two Agenda Decisions (published in March 2006 and May 2009), the Interpretations Committee (then called the IFRIC) noted that the term ‘taxable profit’ implies a notion of a net rather than a gross amount. In those

Agenda Decisions, the Interpretations Committee also observed that any taxes that are not within the scope of other IFRSs (such as IAS 12) are within the scope of IAS 37. The Interpretations Committee further observed that IAS 37 contains a definition of a liability and that a provision is defined in IAS 37 as a liability of uncertain timing or amount. The Interpretations Committee noted that the same recognition requirements should apply to provisions to pay a levy and to liabilities to pay a levy whose timing and amount is certain. Consequently, the Interpretation also addresses the accounting for a liability to pay a levy whose timing and amount is certain.

BC5 The Interpretations Committee noted that IAS 37 does not apply to executory contracts unless they are onerous and that the Interpretation should therefore not apply to executory contracts unless they are onerous.

BC6 The Interpretations Committee decided that, for the purposes of this Interpretation, a levy is an outflow of resources embodying economic benefits imposed by governments on entities in accordance with legislation (ie laws and/or regulations), other than those outflows that are within the scope of other Standards (such as income taxes that are within the scope of IAS 12). Amounts collected by entities on behalf of governments (such as value added taxes) and remitted to governments are not outflows of resources embodying economic benefits for the entities that collect and remit those amounts. The Interpretations Committee decided to use the definition of the term ‘government’ provided in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and IAS 24 *Related Party Disclosures*.

BC7 The Interpretations Committee noted that a payment made by an entity for the acquisition of an asset, or for the rendering of services under a contractual agreement with a government, does not meet the definition of a levy. For the purposes of this Interpretation, levies are imposed by governments and therefore do not arise from contractual agreements. Similarly, the Interpretations Committee noted that the Interpretation does not apply to the accounting for trade discounts and volume rebates agreed between a seller and a purchaser under a contractual agreement.

BC8 The Interpretations Committee decided that the Interpretation should not address the accounting for fines and other penalties. Fines and penalties are paid as a consequence of the breach of laws and/or regulations, whereas levies are paid as a consequence of complying with laws and/or regulations.

BC9 The Interpretations Committee decided that an entity should not be required to apply this Interpretation to liabilities arising from emissions trading schemes. The IASB decided in 2011 to add a project on this topic to its research agenda. The Interpretations Committee thinks that it would be better to address the accounting for liabilities arising from emissions trading schemes in a comprehensive project on all recognition and measurement issues related to emissions trading schemes.

BC10 The Interpretations Committee decided not to withdraw IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* because it provides useful information on the accounting for liabilities within its scope. The Interpretations Committee noted that the consensus in IFRIC 6 is consistent with the consensus in this Interpretation, and concluded that a scope exclusion for liabilities for waste management within the scope of IFRIC 6 is not necessary.

BC11 The Interpretations Committee decided that the Interpretation should provide guidance on applying IAS 37 to a liability to pay a levy and should not address the accounting for the costs arising from recognising the liability to pay a levy. The Interpretations Committee observed that other Standards would determine whether the recognition of a liability to pay a levy gives rise to an asset or an expense.

What is the obligating event that gives rise to the recognition of a liability to pay a levy?

BC12 According to the definition in paragraph 10 of IAS 37, an obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling the obligation. According to paragraph 14(a) of IAS 37, a provision should be recognised only when an entity has a present obligation as a result of a past event. The Interpretations Committee noted that the main consequence of these requirements is that there can be only one single obligating event. The Interpretations Committee acknowledged that, in some circumstances, an obligating event can occur only if other events have occurred previously. For example, for some levies, the entity paying the levy must have undertaken an activity both in the previous and in the current period in order to be obliged to pay the levy. The Interpretations Committee noted that the activity undertaken in the previous period is necessary, but not sufficient, to create a present obligation.

BC13 Consequently, the Interpretations Committee concluded that 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. In other words, the liability to pay a levy is recognised when the activity that triggers the payment of the levy occurs, as identified by the legislation. For example, if the activity that triggers the payment of the levy is the generation of revenues in 20X1 and the calculation of that levy is based on revenues generated in 20X0, the obligating event for that levy is the generation of revenues in 20X1 (see Illustrative Example 2). The date on which the levy is paid does not affect the timing of recognition of the liability to pay a levy, because the obligating event is the activity that triggers the payment of the levy (and not the payment of the levy itself).

BC14 The Interpretations Committee noted that some respondents to the draft Interpretation think that the result of the accounting proposed does not provide a fair representation of the economic effects of recurring levies when the liability is recognised at a point in time and gives rise to an expense, 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 an expense associated with a specific period (and not an expense triggered on a specific date). The Interpretations Committee concluded that the Interpretation is needed to address the diversity in practice and that it provides consistent information about an entity's obligations to pay levies. The Interpretations Committee also observed that the Interpretation does not address the accounting for the costs arising from recognising a liability to pay a levy and that other Standards would determine whether the recognition of the liability to pay a levy gives rise to an asset or an expense. Some constituents asked the Interpretations

Committee to consider the effect of economic compulsion to continue to operate in a future period and of going concern assumption on the accounting for levies. The Interpretations Committee's conclusions are set out below.

Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?

BC15 The Interpretations Committee considered an argument that, if it would be necessary for an entity to take unrealistic action in order to avoid an obligation to pay a levy that will be triggered by operating in the future, then a constructive obligation to pay the levy exists and a liability should be recognised. For example, if the activity that triggers the payment of the levy occurs in 20X1 and the calculation of the levy is based on financial data for 20X0 (as in Illustrative Example 2), some argue that a liability should be recognised in 20X0. Supporters of this argument point to the definition of a constructive obligation in paragraph 10 of IAS 37 and conclude that an entity might have no realistic alternative other than to continue to operate in the market in the next period. For example, they note that an entity may operate in a regulated market and may not be able to stop operating without a long period of run-off.

BC16 The Interpretations Committee rejected this argument, noting that if this rationale were applied, many types of future expenditure within the scope of IAS 37 would be recognised as liabilities. Indeed, in many cases, entities have no realistic alternative but to pay expenditures to be incurred in the future. The Interpretations Committee noted that paragraphs 18 and 19 of IAS 37 state that:

(a) no provision is recognised for costs that need to be incurred to operate in the future; and

(b) it is only those obligations arising from past events existing independently of an entity's future conduct of its business that are recognised as provisions.

BC17 As a result, the Interpretations Committee concluded that, when an entity is economically compelled to incur operating costs that relate to the future conduct of the business, that compulsion does not create a constructive obligation and thus does not lead to the entity recognising a liability. This point is illustrated in the examples accompanying IAS 37.

BC18 The Interpretations Committee noted that a levy is triggered as a result of undertaking an activity in a specified period, as identified by the legislation. As a result, the Interpretations Committee concluded that there is no constructive obligation to pay a levy that relates to the future conduct of the business, even if:

(a) it is economically unrealistic for the entity to avoid the levy if it has the intention of continuing in business;

(b) there is a legal requirement to incur the levy if the entity does continue in business;

(c) it would be necessary for an entity to take unrealistic action to avoid paying the levy, such as to sell, or stop operating, property, plant and equipment;

(d) the entity made a statement of intent (and has the ability) to operate in the future period(s); or

(e) the entity has a legal, regulatory or contractual requirement to operate in the future period(s).

BC19 Consequently, the Interpretations Committee concluded that an entity does not have a constructive obligation at a reporting date to pay a levy that will be triggered by operating in a future period as a result of being economically compelled to continue operating in that future period.

Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?

BC20 The Interpretations Committee noted that this issue is related to the basis of preparation of financial statements. Some question whether the going concern assumption affects the timing of the recognition of the liability to pay a levy.

BC21 The Interpretations Committee observed that IAS 1 *Presentation of Financial Statements* sets out general features for the financial statements, including the accrual basis of accounting and the going concern assumption. The Interpretations Committee noted that, when an entity prepares financial statements on a going concern basis, it shall also comply with all the recognition and measurement requirements of IFRSs. Consequently, the Interpretations Committee concluded that the going concern assumption cannot lead to the recognition of a liability that does not meet the definitions and recognition criteria set out in IAS 37.

BC22 Specifically, the Interpretations Committee concluded that the preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. Paragraphs 18 and 19 of IAS 37 specify that no provision is recognised in that case.

Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?

BC23 The Interpretations Committee observed that most of the liabilities in IAS 37 and in the Illustrative Examples accompanying IAS 37 are recognised at a point in time, that is when the obligating event occurs. Nevertheless, they noted that, in one example accompanying IAS 37, the liability is recognised progressively over time.

BC24 In Illustrative Example 3 accompanying IAS 37, an entity operates an offshore oilfield and is required to restore the seabed because of damage caused by the extraction of oil. According to this example, the restoration costs that arise through the extraction of oil are recognised as a liability when the oil is extracted. The Interpretations Committee noted that in this example, the damage is directly caused by the extraction of oil, and that more damage occurs when more oil is extracted. Thus, the outcome is that the liability for damage caused over time is recognised progressively over time as the entity extracts oil and causes damage to the environment.

BC25 The Interpretations Committee discussed whether this outcome is linked to a recognition issue or to a measurement issue and concluded that this is a recognition issue, because the obligating event (ie the damage caused by the extraction of oil) occurs progressively over a period of time. In accordance with paragraph 19 of IAS 37, the Interpretations Committee noted that a present obligation exists to the extent of the damage caused to date to the environment, because the entity has no present obligation to rectify the damage that will result from the extraction of oil in the future (ie the future conduct of its business).

BC26 Consequently, the Interpretations Committee concluded that the liability to pay a levy is recognised progressively if the obligating event (ie the activity that triggers the payment of the levy, as identified by the legislation) occurs over a period of time. For example, if the obligating event is the generation of revenues over a period of time, the corresponding liability is recognised as the entity generates those revenues (see Illustrative Example 1).

What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

BC27 The draft Interpretation did not address the accounting for levies that are triggered if a minimum revenue threshold is reached. However, many respondents to the draft Interpretation emphasised the importance of providing guidance on this issue. The Interpretations Committee agreed with the respondents' comments and concluded that the Interpretation should provide guidance on the accounting for levies with minimum thresholds. The Interpretations Committee decided that the accounting for the liability to pay such levies should be consistent with the principles established in the consensus of this Interpretation (in particular paragraphs 8 and 11).

BC28 For example, if a levy is triggered if a minimum activity threshold is reached (such as a minimum amount of revenues, sales or outputs produced), the obligating event is the reaching of that activity threshold. If a levy is triggered as the entity undertakes an activity above a minimum level of activity (such as revenues, sales or outputs generated/produced in excess of a minimum amount specified in the legislation), the obligating event is the activity undertaken after the threshold is reached (see Illustrative Example 4). If a levy is triggered if an entity operates on a specified date as identified by the legislation, provided that a minimum threshold is reached in a previous period (such as a minimum amount of revenues, a minimum number of employees, or a minimum amount of assets and liabilities), the obligating event is operating on the specified date as identified by the legislation after having reached the threshold in the previous period. In that case, the reaching of the threshold in the previous period is necessary, but not sufficient, to create a present obligation.

Are the principles for recognising a liability to pay a levy the same in the annual financial statements and in the interim financial report?

BC29 IAS 34 *Interim Financial Reporting* (paragraph 29) states that the same recognition principles should be applied in the annual financial statements and in the interim financial report. Applying the requirements of IAS 34 (paragraphs 31, 32 and 39, as illustrated by paragraphs B2, B4 and B11 of the Illustrative Examples accompanying IAS 34), no liability would be recognised at the end of an interim reporting period if the obligating event has not yet occurred. For example, an entity does not have an obligation at the end of an interim reporting period if the present obligation arises only at the end of the annual reporting period. Similarly, if a present obligation to pay a levy exists at the end of an interim reporting period, the liability should be recognised.

BC30 The Interpretations Committee observed that IAS 34 (paragraph 16A) requires disclosing explanatory comments about the nature and amount of items affecting liabilities that are unusual because of their nature, size or incidence and events after the interim period that have not been reflected in the financial statements for the interim period. If necessary, an entity would therefore provide disclosures about levies that are recognised in the interim financial report or that will be recognised in future interim financial reports.

Appendix B

Confirmation of Due Process Steps followed in the development of the interpretation *Levies*

The following table sets out the due process steps followed for the development of the interpretation *Levies*:

Step	*Required/ Optional*	*Actions*
Consideration of information gathered during consultation		
The Interpretations Committee posts all comment letters that are received in response to the draft Interpretation on the project website.	Required if request issued	Letters have been posted on the project website.
Interpretations Committee meetings are held in public and all decisions are made in public.	Required	Meetings held in 2012 and 2013. Project website contains a full description with up-to-date information. Meeting papers have been posted in a timely fashion.
The IASB is satisfied that sufficient outreach has been undertaken.	Required	Analysis of outreach has been undertaken at the start of the project in 2011. At its November 2012 meeting, the Interpretations Committee concluded that it has sufficient information to understand the likely effects of the interpretation on the accounting for levies and agreed that further impact analysis is not needed.
Email alerts are issued to registered recipients.	Optional	N/A
Due process steps are reviewed.	Required	Summary of all due process steps discussed by the IASB at its April 2013 meeting.
Need for re-exposure of the Interpretation is considered.	Required	An analysis of the need to re-expose has been considered at a public Interpretations Committee meeting.
The Interpretations Committee sets an effective date for the	Required	Effective date has been set, with full consideration of implementation challenges.

Step	*Required/ Optional*	*Actions*
Interpretation, considering the need for effective implementation.		
Ratification of an Interpretation by the IASB.	Required	The IASB will discuss the ratification of the interpretation at its April 2013 meeting.
Drafting		
Drafting quality assurance steps are adequate.	Required	The Translations team has been included in the review process.
Drafting quality assurance steps are adequate	Required	The XBRL team has been included in the review process.
Drafting quality assurance steps are adequate.	Optional	The Editorial team has been included in the review process. In addition, external reviewers have been used to review drafts for editorial review and the comments have been collected and considered by the staff.
Drafting quality assurance steps are adequate.	Optional	Review draft has been made available to members of the International Forum of Accounting Standard-Setters (IFASS).
Drafting quality assurance steps are adequate.	Optional	Final interpretation published in Interpretations Committee and IASB Agenda papers.
Interpretation is published.	Required	Official release will be published.
Press release to announce final Standard.	Required	Press release will be published at the same time as the final interpretation is published.
Podcast to provide interested parties with high level updates or other useful information about the Standard.	Optional	Podcast will be released.