STAFF PAPER

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IFRS Interpretations Committee Meeting

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 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. The Interpretations Committee tentatively decided that:
   (a) it should rediscuss the accounting for levies with minimum thresholds;
   (b) 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;
   (c) the final interpretation should not address the accounting for liabilities arising from emissions trading schemes that are within the scope of the IASB’s project on emissions trading schemes;
   (d) the term ‘levy’ should be defined in the final interpretation;
   (e) the final interpretation should provide guidance on the accounting for the liability to pay a levy in annual and interim financial statements;

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

(g) further impact analysis of the final interpretation on the accounting for levies is not needed;

(h) the final interpretation should not require additional disclosures specific to levies;

(i) it should not propose to introduce specific requirements regarding levies in IAS 34 *Interim Financial Reporting*; and

(j) 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.

3. The Interpretations Committee directed the staff to prepare a paper that:

(a) provides an analysis of the different alternatives on the accounting for levies with minimum thresholds;

(b) discusses whether the final interpretation should address the accounting for levies that are analysed as exchange transactions and whether it should refer to other Standards with regard to the accounting for the debit side of the liability;

(c) proposes a definition for the term 'levy'; and

(d) proposes an updated version of the interpretation based on the Interpretations Committee's tentative decisions.

Structure of the paper

4. The structure of the paper is the following:

(a) Definition of a levy (within the context of the interpretation);

(b) Accounting for the debit side of a liability to pay a levy;

(c) Accounting for levies with minimum thresholds;

(d) Accounting for levies in interim financial statements; and

(e) Appendix A: Updated version of the draft interpretation on levies.

Definition of a levy (in the context of the interpretation)

5. In the November 2012 Interpretations Committee meeting, the Interpretations Committee agreed:

   (a) to use the term 'government' in the final interpretation, rather than the term 'public authority';

   (b) to use the definition of the term 'government' provided in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* (paragraph 3) and in IAS 24 *Related Party Disclosures* (paragraph 9).

   As a result, the term 'government' would refer to governments, government agencies and similar bodies whether local, national or international.

6. The Interpretations Committee also agreed that the final interpretation should give a clear definition of the term 'levy', rather than giving a list of characteristics that a levy within the scope of the interpretation should meet. For the purposes of the interpretation, we propose to define levies as transfers of resources imposed by governments on entities in accordance with laws and/or regulations, other than:

   (a) levies 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 laws and/or regulations.

7. As a result, we would specify in the Basis for Conclusions that the interpretation does not address the accounting for:

   (a) income taxes within the scope of IAS 12, ie taxes based on a taxable profit. We would also observe that the Interpretations Committee specified in two agenda decisions (published in March 2006 and May 2009) that the term 'taxable profit' implies a notion of a net rather that a gross amount;

(b) payments made by an entity in accordance with an agreement concluded between a government and that entity for the acquisition of an asset or the rendering of services. Indeed, levies are imposed by governments and therefore exclude agreements; and

(c) fines and penalties, which are typically decided by a court as a consequence of the breach of laws and/or regulations. Levies are paid in the normal course of business as a consequence of operating in a specific jurisdiction.

8. We do not think that there is a need to further clarify the distinction between levies and income taxes, or levies and fines, because we think that the clarifications provided above are sufficient. Entities must apply judgement to decide whether a levy is an income tax or is a fine.

9. Finally, we think that the title of the final interpretation should be changed to better reflect the scope of the final interpretation. We propose the following title for the interpretation: Levies.

Question for the Interpretations Committee
1. Does the Interpretations Committee agree with the definition of the term 'levy' provided in the section above?

Accounting for the debit side of a liability to pay a levy

10. According to the draft interpretation, levies within the scope of the draft interpretation are non-exchange transactions, ie transactions in which the entity paying the levy does not receive any specific asset in direct exchange for the payment of a levy. As a result, entities paying levies that they consider to be exchange transactions would not apply the interpretation. We do not think that this is the right path to follow.

11. We do not think that the Interpretations Committee should introduce a new notion into IFRS, namely the notion of 'exchange transaction'. We think that determining whether a levy is an exchange transaction is highly subjective and

that this will result in diversity in practice. We also note that levy costs may be capitalised as part of the cost to acquire or to produce an asset in accordance with other Standards. Those levies would be analysed as exchange transactions and would therefore be excluded from the scope of the interpretation. We think that liabilities to pay a levy should all be accounted for consistently in accordance with the interpretation, irrespective of whether those levies are analysed as exchange transactions or not.

12. We think that the inclusion of all levies within the scope of the interpretation does not affect the accounting for the liability to pay a levy (as long as the levy falls within the scope of IAS 37). In our view, the fact that the levy is paid as part of an exchange transaction only affects the accounting for the debit side of the liability.

13. We also think that the interpretation should focus on the accounting for the liability to pay a levy in accordance with the requirements of IAS 37. In our view, the interpretation should not address whether the debit side of the liability is an asset or an expense. We think that the interpretation should refer to other Standards to decide whether levy costs are recognised as assets or expenses.

14. As a result of these proposed changes, an entity would be required to apply:

    (a) the interpretation to the accounting for the liability to pay a levy (irrespective of whether the levy is an exchange transaction or not); and

    (b) other Standards to the accounting for the debit side of the liability.

    We think that this amended scope would achieve greater consistency in the accounting for levies than the previous scope proposed in the draft interpretation. Indeed, the result of the previous scope proposed in the draft interpretation is that entities do not apply the interpretation at all if they consider that the levy is an exchange transaction.

Questions for the Interpretations Committee
2. Does the Interpretations Committee agree that the final interpretation should address the accounting for the liability to pay a levy, irrespective of whether those levies are analysed as exchange transactions or not?
3. Does the Interpretations Committee agree that the final interpretation should refer to other Standards with regard to the accounting for the debit side of the liability?

Accounting for levies with minimum thresholds

15. In November 2012, the Interpretations Committee decided to rediscuss the accounting for levies with minimum thresholds. We note that in order to reach a consensus on this issue, the Interpretations Committee has to decide:

    (a) whether the threshold issue is a recognition issue or a measurement issue;

    (b) whether the accounting should be the same for all types of thresholds (such as thresholds based on revenues, assets or liabilities); and

    (c) whether the rationale developed in the examples in IAS 34 *Interim Financial Reporting* (paragraphs B7 and B12) are specific to interim financial statements or whether the same rationale should also be applied in annual financial statements.

16. We present below:

    (a) a summary of past discussions regarding the threshold issue; and

    (b) the staff's analysis and recommendations regarding the threshold issue.

17. It should be noted that this section addresses the accounting for levies with minimum thresholds in accordance with the requirements of IAS 37, ie in the annual financial statements of the entity paying the levy. However, we think that the main issue that the Interpretations Committee needs to address is the accounting in the interim financial statements (and not the accounting in the

annual financial statements). Indeed, most of the levies (whether with minimum thresholds or not) are annual recurrent levies.

18. It should also be noted that there would be a link between the accounting for levies in the annual financial statements and the accounting in the interim financial statements, if the Interpretations Committee were to confirm that the same recognition principles should be applied in the interim financial statements as are applied in the annual financial statements. The interim accounting for levies is discussed in the section below (see "Accounting for levies in interim financial statements" on page 14).

Summary of past discussions

19. The draft interpretation does not address the accounting for levies that are due only if a minimum revenue threshold is achieved. The Interpretations Committee could not reach a consensus as to whether the obligating event is:

    (a) Alternative 1: the generation of revenues only after the threshold is passed; or

    (b) Alternative 2: the generation of revenues as the entity makes progress towards the revenue threshold (the existence of the threshold being taken into account when assessing whether the obligation should be recognised).

20. Proponents of Alternative 1 think that passing an activity threshold affects the recognition of the liability, ie the liability should be recognised only after the threshold is met.

21. Proponents of Alternative 2 think that the threshold only affects the measurement of the liability (but not its timing of recognition), ie the liability should be recognised progressively as the entity generates revenues if the threshold is expected to be met.

22. It should be noted that proponents of Alternative 1 and 2 both point to the requirements of IAS 34 to support their views. Indeed, although IAS 34 addresses interim accounting, IAS 34 states that the same recognition principles should be applied in the interim financial statements as are applied in the annual financial

statements. Proponents of Alternative 1 note that several requirements and examples in IAS 34 support their views (eg paragraphs 29, 31, 32, 39, B2, B4 and B11). Proponents of Alternative 2 note that other examples in IAS 34 support their views (eg paragraphs B7 on contingent lease payments and B12 on income taxes). Although paragraphs B7 and B12 of IAS 34 do not address liabilities within the scope of IAS 37, proponents of Alternative 2 think that the rationale developed in these examples should be applied by analogy to other liabilities within the scope of IAS 37.

23. It should also be noted that the Interpretations Committee consulted the IASB on this issue. The IASB expressed support for recognising, in the annual financial statements, levies that are 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 (ie the IASB expressed support for Alternative 2).

Staff's analysis and recommendation

24. We think that there are two different types of levies with minimum thresholds:

    (a) levies that are triggered if a minimum activity threshold is met in the current period (such as a minimum amount of revenues, sales, outputs produced or any other data reflecting the entity's activity in the current period); and

    (b) levies that are triggered if an entity operates on a specified date as identified by the legislation, provided that a minimum threshold is met.

Levies that are triggered if a minimum activity threshold is met in the current period

25. For example, a levy is triggered if a minimum revenue threshold of CU100[1] is met in 20X1. The amount of the levy is determined by reference to revenues generated in 20X1. For levies that are triggered if a minimum activity threshold is met in the current period, we think that that the obligating event to pay the levy is the activity undertaken after the threshold is met (ie the obligating event is the

[1] In this staff paper, currency amounts are expressed in "currency units" (CU).

generation of revenues after the threshold is met). We think that this conclusion is the only one that is consistent with the principles provided in the consensus of the draft interpretation, for the following reasons:

(a) We note that the Interpretations Committee confirmed in November 2012 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 the case of a levy that is triggered if a minimum activity threshold is met (such as a minimum revenue threshold), we think that the activity that triggers the payment of the levy is the activity undertaken after the threshold is met (ie the first revenues generated after the minimum revenue threshold is met).

(b) In the Basis for Conclusions of the draft interpretation, the Interpretations Committee noted that the main consequence of the requirements of IAS 37 is that there can be only one single obligating event. The Interpretations Committee acknowledged that, for an obligating event to exist, it may in some circumstances be the case that other events must have occurred previously. Those other events are necessary, but not sufficient, to create a present obligation. In the case of a levy that is triggered if a minimum activity threshold is met, the activity undertaken before the threshold is met is necessary, but not sufficient, to create the present obligation.

(c) In Illustrative Example 1 (IE1) in the draft interpretation, a levy is triggered progressively as the entity generates revenues over a specified period. The Interpretations Committee concluded that the obligating event is the progressive generation of revenues. In the Basis for Conclusions of the draft interpretation, the Interpretations Committee referred to Illustrative Example 3 (IE3) accompanying IAS 37. In this example, an entity operates an offshore oilfield and is required to restore the seabed because of the damage that will be 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. In our view, in IE1 in the draft interpretation and IE3 in IAS 37, the obligating events that trigger the payment of an additional cost are respectively (i) each unit of account of revenue generated by the entity and (ii) any further damage caused by the extraction of the oil. The situation is different for a levy that is triggered if a minimum revenue threshold is met. Although the entity progresses towards the revenue threshold, revenues generated before the threshold is met do not trigger the payment of a levy.

(d) In Illustrative Example 2 (IE2) in the draft interpretation, 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 Interpretations Committee concluded that the obligating event for that levy is the generation of revenues in 20X1, because the activity undertaken in 20X0 is necessary, but not sufficient, to create a present obligation. For a levy that is due if a minimum activity threshold is met, the situation is similar to the situation in IE2. The entity paying the levy must have undertaken an activity before the threshold is met in order to be required to pay a levy, but the obligating event is the activity that triggers the payment of the levy after the threshold is met.

(e) In Illustrative Example 3 (IE3), a levy is triggered in full if the entity operates as a bank at the end of the annual reporting period (ie 31 December in the example). In that case, the Interpretations Committee concluded that the obligating event is to operate as a bank at the end of the annual reporting period, ie on 31 December. We think that the situation in IE3 is similar to the situation in which a levy is triggered if a minimum activity threshold is met. An annual recurring levy such as the one described in IE3 could be viewed as a levy that is paid only if the entity operates for more than 364 days, ie there is a threshold that is based on time. The entity is progressing towards the threshold on each

day that passes, but the obligating event is to operate on the day that the threshold is met, ie on the last day of the year in this example.

(f) The Interpretations Committee noted that paragraphs 18 and 19 of IAS 37 state that no provision is recognised for costs that relate to the future conduct of a business. 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 the entity is economically compelled to continue operating in that future period. The Interpretations Committee also specified that a levy imposed by a government is an operating cost of the period in which it is triggered according to the legislation. As a result, in our view, no liability should be recognised for a levy that will be triggered in the future as a result of meeting a minimum activity threshold in the future.

(g) We think that the rationale developed in the examples in IAS 34 regarding employer payroll taxes, contingent lease payments and income taxes (Illustrative Examples B7 and B12) are not consistent with the requirements of IAS 37/IFRIC 6 or with the principles developed in the consensus of the draft interpretation. In other words, we think that these examples are specific to interim accounting and should not be applied by analogy in the annual financial statements for levies that are within the scope of IAS 37. See the section on page 14 on the Accounting for levies in interim financial statements.

26. As a result, for levies that are triggered if a minimum activity threshold is met in the current period, we think that the consensus of the final interpretation should specify that the obligating event is the activity undertaken after the threshold is met. Indeed, in that case, we think that the existence of the threshold affects the timing of recognition of the liability (and is not a measurement issue).

27. We note that for some levies, the amount payable is based on the incremental activity undertaken after the threshold is met (eg the amount payable is based on incremental revenues generated above a specified revenue threshold, eg CU100 of revenues). For other levies, the amount payable is based on the activity undertaken before and after the threshold is met (eg the amount payable is based

on the total revenues generated, including the first CU100 of revenues generated before the threshold is met). We do not think that this affects our analysis above. This only affects the measurement of the amount of the levy payable.

28. We think that this outcome adequately reflects the obligations incurred by the entities paying the levy. It is also consistent with the requirements of IAS 37. However, we acknowledge that this outcome is counterintuitive when looking at the expense recognition pattern in the statement of profit or loss of interim financial statements. This is because IAS 37 focuses on the obligations incurred by an entity and on the entity's statement of financial position.

29. We note that this outcome will be criticised by the respondents who think that the result of the accounting proposed in the draft interpretation does not provide a fair representation of the economic effects of levies. 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).

30. We think that the respondents' concerns are related to the expense recognition pattern of the levy costs in the interim financial statements. As a result, we think that the Interpretations Committee should address the respondents' concerns within the context of interim accounting and should recommend to the IASB that it should review the principles in IAS 34. See the section on page 14 on the Accounting for levies in interim financial statements.

Levies that are triggered if the entity operates on a specified date as identified by the legislation, provided that a minimum threshold is met

31. We provide below three examples. In one example, the threshold is based on the entity's activity (but the activity on which the threshold is based is not the activity that triggers the payment of the levy). In the other examples, the threshold is **not** based on the entity's activity (but is based on the number of employees or the amount of assets and liabilities).

32. Example A: a levy is triggered if an entity operates on 1 January 20X1, provided that a minimum revenue threshold of CU100 is met in the previous year, ie 20X0. The amount of the levy is determined by reference to revenues generated by the entity in 20X0.

33. Example B: a levy is triggered if an entity operates on 1 January 20X1, provided that the average number of employees is above 20 employees in 20X0. The amount of the levy is determined by reference to revenues generated by the entity in 20X0.

34. Example C: a levy is triggered if an entity operates as a bank on 31 December 20X1, provided that the amount of liabilities in the entity's statement of financial position as at 31 December 20X1 is above CU200 millions. The amount of the levy is determined by reference to the amounts in the entity's financial statement of position as at 31 December 20X1.

35. According to the consensus of the draft interpretation, 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 those examples, the obligating event is therefore to operate on the specified date as identified by the legislation (ie 1 January 20X1 in Example A and Example B and 31 December 20X1 in Example C). Indeed, those thresholds do not affect the obligating event because:

    (a) they are not based on the activity that triggers the payment of the levy; and

    (b) the entity paying the levy knows whether the threshold is met on the date specified by the legislation.

36. In other words, the existence of the threshold in those situations does not affect the timing of recognition of the liability, but only affects the measurement of the liability. We think that this conclusion is consistent with the rationale developed in the examples provided in the consensus of the draft interpretation, in particular in Example 2 and Example 3. We also think that for levies that are triggered if the entity operates on a specified date as identified by the legislation, the entity will know in most cases whether the threshold is met on the date identified by the legislation.

37. Consequently, we think that the final interpretation should specify that the existence of a minimum threshold that is not based on the activity that triggers the payment of the levy (as identified by the legislation) affects the measurement of the liability (but not the timing of its recognition).

Questions for the Interpretations Committee
4. Does the Interpretations Committee agree that, for levies that are triggered if a minimum activity threshold is met in the current period, the obligating event is the activity undertaken after the threshold is met? 5. Does the Interpretations Committee agree that, for levies that are triggered if the entity operates on a specified date as identified by the legislation, the existence of a minimum threshold affects the measurement of the liability (but not the timing of its recognition)?

Accounting for levies in interim financial statements

38. We present below:

    (a) a summary of past discussions regarding interim accounting; and

    (b) the staff's analysis and recommendations regarding interim accounting.

Summary of past discussions

39. The Interpretations Committee discussed in the January and November 2012 Committee meetings whether IAS 34 and its principles for interim accounting should be changed in order to reflect what some might argue is a fairer representation of the economic effects of the levies. In particular, the Interpretations Committee discussed whether a levy cost that is associated with an activity performed in more than one interim period should be allocated to the other interim periods through the use of accruals or deferrals.

40. The Interpretations Committee observed that IAS 34 explicitly states that the same recognition principles should be applied in the annual and the interim financial statements (paragraphs 29, 31, 32 and B4). This principle is further explained in IAS 34 (paragraphs 39, B2 and B4). As a result, the Interpretations Committee concluded that, in the interim financial statements, the levy expense should not be:

    (a) accrued if there is no present obligation to pay the levy at the end of the interim reporting period; or

(b) deferred if a present obligation to pay the levy exists at the end of the interim period.

41. The Interpretations Committee noted that in Topic 270-10 *Interim Reporting-Overall* in the *FASB Accounting Standards Codification*®, annual operating costs that benefit more than one interim period, or that are associated with an activity performed in more than one interim period, may be allocated to the other interim periods through the use of accruals or deferrals. For example, property taxes may be deferred and allocated within a fiscal year if the costs benefit more than one interim period. Consequently, US GAAP appears to be different from IFRS for interim reporting.

42. The Interpretations Committee also noted that any change to IAS 34 might affect the accounting for other annual recurring operating expenses that are irregularly incurred during the financial year and concluded that there should not be specific requirements introduced in IAS 34 applicable only to levies.

Staff's analysis and recommendations regarding interim accounting

43. Conceptually, there are two principles for interim financial statements accounting:

    (a) The 'integral' principle: under this principle, an interim period is considered as an integral component of the annual reporting period. Annual operating costs that benefit more than one interim period may be allocated to the other interim periods through the use of accruals or deferrals. US GAAP generally applies the 'integral' principle.

    (b) The 'discrete' principle: under this principle, an interim period is considered as a discrete stand-alone accounting period. It follows that the same recognition principles should be applied in the annual and the interim financial statements. The core principle in IAS 34 is to apply the 'discrete' principle for recognising assets, liabilities, income and expenses.

44. However, it should be noted that IAS 34 does not seem to fully follow the 'discrete' principle in the detailed guidance provided in the illustrative examples

(Appendix B). The guidance regarding income taxes and contingent lease payments in particular seem to be closer to the 'integral' principle:

(a) Interim period income tax expense is accrued over the year using a weighted average annual tax rate expected for the full financial year applied to the income generated in the period. The weighted average annual tax rate reflects the progressive tax rate structure (for example, a 0 per cent tax rate on the first CU20,000 of annual earnings and a 20 per cent tax rate on all additional earnings).

(b) Contingent rental expense is recognised in an interim reporting period before the end of the annual reporting period if the achievement of the target that triggers the contingent rental expense is probable.

It follows in our view that the general principle in IAS 34 is to apply the 'discrete' principle, unless specifically stated otherwise in IAS 34.

45. We agree that there should not be any specific requirements introduced into IAS 34 that would be applicable only to levies. Indeed, we think that there should be clear principles that apply to the accounting for costs that are irregularly incurred within an annual financial period. As stated in IAS 34, we think that the interim financial statements should not 'smooth':

(a) revenues received seasonally, cyclically or occasionally; or

(b) costs incurred unevenly during the financial year.

46. However, we think that there should be an exception to the 'discrete' principle in IAS 34 for **annual** recurring costs that are recognised as expenses in full within an interim financial period as a result of an **annual present obligation** (such as annual recurring levy costs that are recognised as expenses in full within an interim financial period). Indeed, we think that these annual recurring costs should be allocated to the other interim financial periods through the use of accruals or deferrals.

47. In doing so, our objective is not to 'smooth' costs that are incurred unevenly (such as production costs or marketing costs). Those costs should **not** be accrued or deferred. Our objective is instead to acknowledge that annual recurring costs, ie costs that are incurred once a year as a result of an annual present obligation, are

costs incurred consistently each year. We think that this should be reflected in the interim financial statements by an even pattern of expense recognition. Indeed, we think that these costs are associated with the **annual** reporting period in which they are recognised as expenses (and not with the **interim** financial period in which they are recognised as expenses). This is because of the annual recurring cycle of these costs (resulting from an annual present obligation). As a result, these costs would be accrued or deferred in the interim financial periods so that each interim period is charged for an appropriate portion of the annual cost.

48. As mentioned above, we note that some of the examples in IAS 34 support this view (in particular paragraphs B7 and B12). Although those examples do not address liabilities within the scope of IAS 37, it should be noted that some currently apply the rationale developed in those examples by analogy to liabilities that are within the scope of IAS 37. We think that it would make sense to apply the rationale developed in those examples to the accounting for levy expenses in interim financial statements (provided that the levy is an annual recurring levy).

49. However, we do not think that those examples in IAS 34 are consistent with the requirements of IAS 37 or with the principles developed in the consensus of the draft interpretation. We therefore do not think that they should be applied by analogy to the accounting in the annual financial statements for liabilities that are within the scope of IAS 37. In other words, we think that these examples are specific to interim accounting.

50. As a result, we think that the Interpretations Committee has the following alternatives:

(a) Alternative A: confirm a strict reading of IAS 34 for levies that are within the scope of IAS 37. In that case, the same recognition principles should be applied in the interim financial statements as are applied in the annual financial statements. As a result, the levy expense should not be accrued or deferred in the interim financial statements. If the Interpretations Committee were to apply Alternative A, we think that the Interpretations Committee should recommend to the IASB that it should amend paragraph B7 in IAS 34 on contingent lease payments. Indeed, this example uses notions defined in IAS 37 (such as legal or

constructive obligation) and we think that it is not consistent with the consensus of the interpretation or with the requirements in IAS 37 and IAS 34.

(b) Alternative B: recommend to the IASB that it should introduce an exception to the 'discrete' principle in IAS 34 for all annual recurring costs incurred as a result of an **annual present obligation**. In that case, we recommend amending IAS 34 so that those annual recurring costs that are recognised as expenses in an interim financial period should be allocated to the other interim financial periods through the use of accruals and deferrals so that each corresponding interim period is charged for an appropriate portion of the annual cost. The rationale developed in paragraphs B7 and B12 of IAS 34 would be the basis of this new proposed amendment. We note that this would also achieve greater convergence with US GAAP and would correspond to the current practice of most entities. We think that this could be done through a narrow-scope amendment to IAS 34.

(c) Alternative C: acknowledge that the requirements of IAS 34 are not clear on the accounting for annual recurring costs in the interim financial statements and recommend to the IASB that it should address the issue.

51. We recommend applying Alternative B. We think that this would answer the respondents' concern regarding the expense pattern recognition of levies in interim financial statements. We think that the current requirements in IAS 34 need to be clarified or amended.

52. Because this alternative would require amending IAS 34, if the Interpretations Committee does not want to defer the publication of the interpretation, we think that it could decide:

(a) to refer to IAS 34 in the consensus of the final interpretation; and

(b) to acknowledge in the Basis for Conclusions of the final interpretation that entities can apply one of the alternatives described above (ie

Alternative A or Alternative B) for the accounting for annual recurring levies in the interim financial statements.

The interpretation would be updated if (and when) IAS 34 is amended.

53. We note that proposing a narrow-scope amendment to IAS 34 is within the remit of the Interpretations Committee's activity. Conversely, we do not think that the Interpretations Committee should propose any amendments to IAS 37. Furthermore, we also note that the IASB will soon address the definition of a liability in the Conceptual Framework project.

Questions for the Interpretations Committee
6. Does the Interpretations Committee agree to recommend to the IASB that it should amend the requirements of IAS 34 as proposed in Alternative B? 7. If not, does the Interpretations Committee agree to recommend to the IASB that is should clarify interim accounting for annual recurring costs? Does the Interpretations Committee agree to refer to the requirements of IAS 34 in the final interpretation and acknowledge in the Basis for Conclusions of the final interpretation that the accounting for annual recurring costs is not clear? 8. If not, does the Interpretations Committee want to confirm the current principles regarding interim accounting that were provided in the draft interpretation?

Appendix A: Updated version of the draft interpretation on levies

A1. We present below an updated version of the draft interpretation on levies based on the decisions taken by the Committee in November 2012. New text is underlined and deleted text is truck through. It should be noted that we did not update the paragraphs related to the accounting for levies in the interim financial statements. We will update the interpretation once the Interpretations Committee has rediscussed this issue. We will also update the Basis for Conclusions of the interpretation regarding the accounting for levies with minimum thresholds once the Interpretations Committee has rediscussed the issue.

~~[DRAFT]~~ IFRIC INTERPRETATION X *Levies ~~Charged by Public Authorities on Entities that Operate in a Specific Market~~*

References

- IAS 1 *Presentation of Financial Statements*
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- IAS 12 *Income Taxes*
- 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 public authority may impose a levy on entities that operate in a specific market. Examples of public authorities include national governments, regional governments (for example, state, provincial, territorial), local governments (for example, city, town) and their component entities (for example, departments, agencies, boards, commissions).~~

~~2~~1 A government may impose a levy on an entity. 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 questions relate 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

~~3 The [draft] Interpretation addresses the accounting for levies that are recognised in accordance with the definition of a liability that is provided in IAS 37.~~

~~4 This [draft] Interpretation does not address the accounting for:~~

> ~~(a) income taxes that are within the scope of IAS 12 *Income Taxes*, ie taxes based on a taxable profit (ie a net amount of revenues and expenses);~~
>
> ~~(b) levies that are due only if a minimum revenue threshold is achieved;~~
>
> ~~(c) fines or other penalties imposed for breaches of the legislation; and~~
>
> ~~(d) contracts between a public authority and a private entity.~~

~~5 Levies within the scope of this [draft] Interpretation have the following characteristics:~~

> ~~(a) they require a transfer of resources to a public authority (or to a third party designated by a public authority) in accordance with legislation (ie laws and/or regulations);~~
>
> ~~(b) they are paid by entities that operate in a specific market as identified by the legislation (such as a specific country, a specific region or a specific market in a specific country);~~
>
> ~~(c) they are non-exchange transactions, ie transactions in which the entity paying the levy does not receive any specific asset in direct exchange for the payment of the levy;~~
>
> ~~(d) 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~~
>
> ~~(e) 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.~~

2 This Interpretation addresses the accounting for levies that are within the scope of IAS 37 and levies whose timing and amount is certain. For the purposes of this

Interpretation, levies are transfers of resources imposed by governments on entities in accordance with laws and/or regulations, other than:

(a) levies 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 laws and/or regulations.

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

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

4 This Interpretation does not address the accounting for the debit side of a liability to pay a levy. Entities should apply other Standards to decide whether levy costs are recognised as assets or as expenses.

Issues

~~6~~5 To clarify the accounting for a levy, this ~~[draft]~~ Interpretation addresses the following issues:

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

(b) Does the economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will arise from operating in that future period?

(c) Does the going concern principle imply that an entity has a present obligation to pay a levy that will arise from 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 a liability to pay a levy that is triggered only if a minimum threshold is met?

(~~e~~f) Can the levy expense be ~~anticipated~~ accrued or deferred in the interim financial statements?

Consensus

~~7~~6 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.

~~8~~7 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.

~~9~~8 The preparation of financial statements under the going concern principle does not imply that an entity has a present obligation to ~~continue to operate in the future and therefore does not lead to the entity recognising a liability at a reporting date for levies~~ pay a levy that will arise from operating in a future period.

~~10~~9 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, a liability to pay a levy is recognised progressively if the obligating event is the progressive generation of revenues in the current period over a period of time.

10 For a levy that is triggered if a minimum activity threshold is met in the current period (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 activity undertaken after the threshold is met. For example, for a levy that is triggered if a minimum revenue threshold is met in the current period, the obligating event for that levy is the generation of revenues after the threshold is met.

11 For a levy that is triggered if an entity operates on a specified date as identified by the legislation provided that a minimum threshold is met, the obligating event that gives rise to a liability to pay a levy is to operate on the specified date as identified by the legislation. The existence of the threshold affects the measurement of the liability (but not the timing of its recognition). For example, a levy is triggered if the entity operates on 1 January of the current period, provided that a minimum threshold is met in the

previous period (such as a minimum amount of revenues, a minimum number of employees, or a minimum amount of assets and liabilities). In that case, the obligating event is to operate on 1 January of the current period.

~~11 The liability to pay a levy that is within the scope of this draft Interpretation gives rise to an expense.~~

TO BE UPDATED ~~12 The same recognition principles shall be applied in the interim financial statements as are applied in the annual financial statements. As a result, in the interim financial statements, the levy expense should not be:~~

> ~~(a) anticipated if there is no present obligation to pay the levy at the end of the interim reporting period; or~~
>
> ~~(b) deferred if a present obligation to pay the levy exists at the end of the interim period.~~

Appendix A

Effective date and transition

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

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

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

IFRIC X Levies ~~Charged by public Authorities on Entities that Operate in a Specific Market~~

~~[DRAFT]~~ Illustrative examples

These examples accompany, but are not part of, the ~~[draft]~~ Interpretation.

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

Example 1—A levy is triggered progressively as the entity generates revenues ~~in a specific market~~ over a specified period

Entity A has an annual reporting period that ends on 31 December. A levy is triggered progressively as Entity A generates revenues ~~in a specific market~~ in 20X1. The amount of the levy is determined by reference to revenues generated by Entity A ~~in the market~~ 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 progressive 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 other words, the obligating event occurs progressively during 20X1, because the activity that triggers the payment of the levy, as identified by the legislation, occurs progressively during 20X1.

In the interim financial report (for example at 30 June 20X1), Entity A has a~~n~~ present obligation to pay the levy on revenues generated from 1 January 20X1 to the end of the interim period. ~~As a result, an expense that is based on revenues generated in each respective interim period is recognised in the corresponding 20X1 interim periods.~~

Example 2—A levy is triggered in full as soon as the entity generates revenues ~~in a specific market~~ in a specified period

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 a specific market~~ in 20X1. The amount of the levy is determined by reference to revenues generated by Entity B in the market in 20X0. Entity B generated revenues in the market in 20X0 and starts to generate revenues ~~in the market~~ in 20X1 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 obligation. In other words, the activity that triggers the payment of the levy as identified by the legislation is the first generation of revenues at a point in time in 20X1. The generation of revenues in 20X0 is not the activity that triggers the payment of the levy. The amount of revenues generated in 20X0 only affects the measurement of the liability.

TO BE UPDATED ~~In the interim financial report, because the liability is recognised in full on 3 January 20X1, the expense is recognised in full in the first interim period of 20X1. The expense shall not be deferred until subsequent interim periods and shall not be anticipated in previous interim periods.~~

Example 3—A levy is triggered in full if the entity operates as a bank at a specified date ~~the end of the annual reporting period in a specific market~~

> 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 ~~in a specific market~~. The amount of the levy is decided by reference to amounts in the balance sheet 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 to operate 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 in the future and to operate as a bank at the end of the annual reporting period. In other words, the activity that triggers the payment of the levy as identified by the legislation is to operate as a bank at the end of the annual reporting period, which does not occur until 31 December 20X1. Even if the amount of the liability is based on the length of the reporting period, that does not imply that the liability should be recognised progressively during 20X1, because the obligating event is to operate as a bank at the end of the annual reporting period.
>
> TO BE UPDATED ~~In the interim financial report, because the liability is recognised in full on 31 December 20X1, the expense is recognised in full in the last interim period of 20X1. The expense shall not be deferred until subsequent interim periods and shall not be anticipated in previous interim periods.~~

Basis for Conclusions on IFRIC X *Levies* ~~*Charged by Public Authorities on Entities that Operate in a Specific Market*~~

This Basis for Conclusions accompanies, but is not part of, ~~[draft]~~ 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 a liability for other levies charged by ~~public authorities~~ governments on entities ~~that operate in a specific market~~. The questions relate 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*.

BC2 In particular, the concerns expressed in the request relate to what accounting treatment an entity should apply to levies whose~~, the~~ calculation ~~of which~~ is based on financial data that, in turn, is related to a period preceding the period in which the activity that triggers the payment of the levy occurs. For example, 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 The Interpretations Committee observed that the question raised in the submission relates to how to account for levies whose calculation basis uses data for the current or a previous reporting period, 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 ~~The~~ Interpretations Committee (then called the IFRIC) noted that the term 'taxable profit' implies a notion of a net rather than a gross amount ~~of revenues and expenses~~. The Interpretations Committee also ~~noted that those levies that are not within the scope of IAS 12 are~~

~~recognised in accordance with the definition of a liability that is provided in IAS 37~~ observed that any taxes that are not within the scope of other IFRSs (such as IAS 12) are within the scope of IAS 37. ~~As a result, this [draft] Interpretation addresses the accounting for levies that are recognised in accordance with the definition of a liability that is provided in IAS 37~~ As a result, the Interpretations Committee concluded that the Interpretation should address the accounting for levies that are within the scope of IAS 37.

BC5 The Interpretations Committee observed that IAS 37 addresses the accounting for provisions. A provision is defined in IAS 37 as a liability of uncertain timing and amount. As a result, liabilities to pay levies whose timing and amount is certain are not provisions and are therefore not within the scope of IAS 37. The Interpretations Committee decided that the same recognition requirements should apply to provisions and to liabilities of certain timing and amount and therefore concluded that the Interpretation should also address the accounting for levies whose timing and amount is certain.

~~BC5 This [draft] Interpretation addresses the accounting for levies that are non-exchange transactions, ie transactions in which the entity paying the levy transfers resources to a public authority (or to a third party designated by a public authority) without receiving any specific asset in direct exchange for the payment of the levy. The Interpretations Committee noted that the scope of this [draft] Interpretation covers the majority of levies, but that judgement would be required in certain instances to determine whether the entity paying the levy receives an asset in direct exchange for the payment of the levy (such as rights to receive specific future goods or services).~~

~~BC6 This [draft] Interpretation does not address the accounting for contracts between a public authority and a private entity (including levies that are in substance payments related to a contract with a public authority).~~

BC6 The Interpretations Committee decided that, within the context of this Interpretation, levies are transfers of resources imposed by governments on entities in accordance with laws and/or regulations, other than levies that are within the scope of other IFRSs (such as income taxes that are within the scope of IAS 12). The Interpretations Committee decided to use the definition of the term 'government' provided in IAS 20 and IAS 24.

As a result, government refers to government, government agencies and similar bodies whether local, national or international.

BC7 The Interpretations Committee noted that a payment for the acquisition of an asset, or the rendering of services made by an entity in accordance with an agreement concluded between a government and that entity, does not meet the definition of a levy. Indeed, levies are imposed by a government and therefore exclude agreements.

BC8 The Interpretations Committee decided that the Interpretation should not address the accounting for fines and other penalties. The Interpretations Committee noted that fines and penalties are typically decided by a court as a consequence of the breach of laws and/or regulations, whereas levies are paid in the normal course of business as a consequence of operating in a specific jurisdiction.

BC9 The Interpretations Committee decided that an entity is not required to apply this Interpretation to liabilities arising from emissions trading schemes. The Interpretations Committee noted that the IASB decided to add the project to its research agenda. The Interpretations Committee think that the accounting for liabilities arising from emissions trading schemes would be better addressed in a comprehensive project that discusses all the recognition and measurement issues related to an emissions trading scheme.

BC10 The Interpretations Committee decided that IFRIC 6 should not be withdrawn, because it provides useful information on the accounting for liabilities for waste management under the EU Directive on WE&EE in respect of sales of historical household equipment. 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.

~~BC7 This [draft] Interpretation does not address the accounting for levies that are due only if a minimum revenue threshold is achieved in the current period because the Interpretations Committee did not reach a consensus as to whether the obligating event is:~~

~~(a) the generation of revenues only after the threshold is passed; or~~

~~(b) the generation of revenues as the entity makes progress towards the revenue threshold (the existence of the threshold being taken into account when assessing whether the obligation should be recognised).~~

BC11 The Interpretations Committee decided that the Interpretation should provide guidance on the accounting for a liability to pay a levy in accordance with the requirements of IAS 37 and should not specify whether the debit side of the liability is recognised as an asset or an expense. The Interpretations Committee observed that entities should apply other Standards to decide whether levy costs are recognised as assets or expenses. For example, the Interpretations Committee noted that levy costs may be capitalised in certain circumstances as part of the cost to acquire or to produce an asset in accordance with other IFRSs.

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

BC12~~8~~ 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, for an obligating event to exist, it may in some circumstances be the case that other events must have occurred previously. For example, for levies ~~charged~~ imposed by governments, the Interpretations Committee observed that, in certain circumstances, the entity paying the levy must have undertaken an activity both in the previous and in the current period in order to be required to pay a levy. The Interpretations Committee noted that the activity undertaken in the previous period is necessary, but not sufficient, to create a present obligation.

BC13~~9~~ 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, as identified by the legislation, occurs. 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).

Does the economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will arise from operating in that future period?

BC14~~10~~ The Interpretations Committee considered an argument that if it would be necessary for an entity to take unrealistic action in order to avoid the obligation to pay a levy that will be triggered in the future~~(for example to withdraw from the market)~~, then a constructive obligation to pay the levy exists and a liability should be recognised. For example, in the case in which 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 emphasise the definition of a constructive obligation in paragraph 10 of IAS 37 and point out that an entity might in practice have no realistic alternative other than to continue to operate in the market in the next period. 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, or an entity may have a contractual requirement to operate in the future because of the existence of purchase or sale contracts to be settled in the future.

BC15~~11~~ The Interpretations Committee rejected this argument, noting that if this rationale were to be applied, many types of future expenditure would be recognised as liabilities. Indeed, in many cases, entities have no realistic alternative but to pay expenditures to be incurred in the future. ~~a levy charged by a government is incurred as a result of operating in a specified period, ie it is an operating cost of the period in which it is triggered according to the legislation~~. The Interpretations Committee noted that~~Paragraphs~~ 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; ~~or~~ and

(b) it is only those obligations arising from past events existing ~~when the obligation does not exist~~ independently of ~~the~~ an entity's future conduct of ~~the~~ its business that are recognised as provisions.

BC16 The Interpretations Committee concluded that these paragraphs of IAS 37 disallow certain provisions that might otherwise be recognised and that~~The Interpretations Committee observed that,~~ when an entity has an economic compulsion to incur operating

costs that relate to the future conduct of the business, it does not create a constructive obligation and does not lead to the entity recognising a liability. This point is illustrated in the examples accompanying IAS 37.

BC17~~12~~ The Interpretations Committee noted that a levy imposed by a government is incurred as a result of operating in a specified period, ie it is an operating cost of the period in which it is triggered according to the legislation. As a result, ~~In particular,~~ 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 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 market in the future period(s); or

(e) the entity has a legal, regulatory or contractual requirement to operate in the market in the future period(s) (for example because of contractual requirements arising from purchase or sale contracts to be settled in the future).

BC18~~13~~ Consequently, the Interpretations Committee concluded that an entity does not have a constructive obligation at a reporting date 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. This is because this levy cost relates to the future conduct of the business and is an operating cost of that future period.

Does the going concern principle imply that an entity has a present obligation to pay a levy that will arise from operating in a future period?

BC19~~14~~ The Interpretations Committee noted that this issue is related to the fundamental basis of preparing financial statements. Some question whether the going concern principle affects the timing of the recognition of the liability to pay a levy.

BC20~~15~~ 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 principle. The Interpretations Committee noted that, when an entity prepares financial statements on a going concern basis, it shall also apply the accrual basis of accounting and shall comply with all the recognition and measurement provisions of IFRSs. Consequently, the Interpretations Committee concluded that the going concern principle cannot lead to the recognition of a liability that does not meet the definitions and recognition criteria set out in IAS 37.

BC21~~16~~ Specifically, the Interpretations Committee concluded that the preparation of financial statements under the going concern principle does not imply that an entity has a present obligation to~~ continue to operate in the future and therefore does not lead to the entity recognising a liability at a reporting date for levies~~ pay a levy that will arise from 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?

BC22~~17~~ 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, ie at the point in time when the obligating event occurs. Nevertheless, they noted that in one example accompanying IAS 37 the liability is recognised progressively over time.

BC23~~18~~ In Illustrative Example 3 accompanying IAS 37, an entity operates an offshore oilfield and is required to restore the seabed because of the damage that will be 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 that is caused over time is recognised progressively over time as the entity extracts oil and causes damage to the environment.

BC24~~19~~ 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).

BC25~~0~~ 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, a liability to pay a levy is recognised progressively if the obligating event is the progressive generation of revenues in the current period over a period of time (see Illustrative Example 1).

What is the obligating event that gives rise to a liability to pay a levy that is triggered only if a minimum threshold is met?

BC26 TO BE UPDATED

Can the levy expense be ~~anticipated~~ accrued or deferred in the interim financial statements?

TO BE UPDATED~~BC21 IAS 34 *Interim Financial Reporting* (paragraph 29) states that the same recognition principles should be applied in the annual and the interim financial statements. Applying the requirements of IAS 34 (paragraphs 31, 32, 39, B2, B4 and B11), no liability should 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.~~

~~BC22 As a result, if there is no present obligation to pay a levy at the end of an interim reporting period, the expense should not be anticipated even if the costs associated with the levy are incurred irregularly during the financial year and tend to recur from year to year. Similarly, if a present obligation to pay a levy exists at the end of an interim reporting period, the expense should not be deferred even if the costs associated with the levy are incurred irregularly during the financial year and tend to recur from year to year.~~

~~BC23 This does not preclude an entity from recognising a prepayment as an asset when the entity has paid the levy but does not have yet a present obligation to pay the levy.~~