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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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

Introduction

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

2. At the November 2012 Interpretations Committee meeting, the Interpretations Committee was presented with a summary and an analysis of the comments received on the draft interpretation. The Interpretations Committee tentatively 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) 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; 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.

3. At the January 2013 Interpretations Committee meeting, the Interpretations Committee tentatively 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 tentatively 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 paragraph 7 of the draft Interpretation, the obligating event is the activity that triggers the payment of the levy, as identified by the legislation. The Interpretations Committee tentatively 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.

(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*.

Objective of the paper

4. The objective of the paper is:

(a) to present a final interpretation on levies;

(b) to ask the Interpretations Committee whether it thinks that the final interpretation should be re-exposed for comments;

(c) if the answer to (b) is no re-exposure, to ask the Interpretations Committee whether it agrees to publish the final interpretation as presented in Appendix A of this paper ; and

(d) to discuss the effective date of the interpretation.

Structure of the paper

5. The structure of the paper is the following:

(a) Comparison between the final interpretation and the draft interpretation published in May 2012;

(b) Next steps;

(c) Effective date;

(d) Appendix A: clean version of the final interpretation;

(e) Appendix B: version of the final interpretation showing changes between the final interpretation and the draft interpretation published in May 2012.

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

6. The final interpretation presented in Appendix A of this paper has been updated on the basis of the Interpretation Committee's decisions taken during the November 2012 and January 2013 meetings. The final interpretation presented in Appendix B shows changes made to the draft interpretation published in May 2012 (new text is underlined and deleted text is struck through).

7. We provide below a comparison between the final interpretation and the draft interpretation published in May 2012, so that the Committee can decide whether it wants to re-expose the final interpretation. 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. The draft interpretation only addressed the accounting for levies that are non-exchange transactions.

   (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.

   (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. Paragraphs were added or deleted in the consensus of the interpretation as a result of changes made to the scope of the interpretation:

(a) a paragraph was added in the consensus to address the accounting for liabilities to pay levies with minimum thresholds; and

(b) a paragraph was deleted in the consensus of the interpretation. This paragraph stated that the liability to pay a levy (that was within the scope of the draft interpretation) gives rise to an expense.

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.

Staff recommendation on re-exposure of the final interpretation

13. We recommend that the final interpretation is not re-exposed for comments. We note that the consensus regarding the accounting for the liability to pay a levy was not changed (other than drafting changes). Paragraphs were added or deleted in the consensus of the interpretation as a result of changes made to the scope of the interpretation:

(a) the final interpretation addresses the accounting for levies with minimum thresholds. We observe that most of the respondents asked the Interpretations Committee to address the accounting for those levies. We also observe that the Interpretations Committee decided that the accounting for those levies should be consistent with the principles established in the consensus of the (final and draft) interpretation. As a result, the accounting proposed in the final interpretation is based on principles that were presented in the draft interpretation (and already exposed for comments).

(b) the final interpretation addresses the accounting for liabilities to pay levies, regardless of whether levy costs are recognised as assets or expenses. We note that this change does not affect the principles in the consensus regarding the accounting for a liability to pay a levy. We also note that the interpretation refers to other standards for determining

whether the liability to pay a levy gives rise to an asset or to an expense. As a result, the final interpretation does not introduce any new requirements or new principles.

14. Consequently, we do not think that the interpretation needs to be re-exposed.

Next steps

15. We will ask the Interpretations Committee members at the March 2013 meeting whether they agree to publish the interpretation on levies presented in Appendix A of this paper (subject to minor drafting change). Agreement is reached when no more than four members have voted against the interpretation. The staff will then prepare the interpretation for balloting and Interpretations Committee members will be asked to ballot the interpretation (in the week following the March 2013 meeting). The interpretation will then be submitted to the IASB for ratification.

Questions for the Interpretations Committee
1. Does the Interpretations Committee agree with the staff recommendation that the final interpretation is not re-exposed? 2. If so, does the Interpretations Committee agree to publish the interpretation on levies presented in Appendix A of this paper (subject to minor drafting changes)?

Effective date

16. We propose that an entity should apply the interpretation for annual periods beginning on or after 1 January 2014. Earlier application would be permitted.

Question for the Interpretations Committee
3. Does the Interpretations Committee agree to recommend to the IASB that it should apply the interpretation 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 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 the liability to pay a levy should be recognised and are linked to the definition of a liability in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Scope

2 For the purposes of this Interpretation, levies are outflows 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.

3 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.

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

Issues

5 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 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 principle 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 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

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. The generation of revenues in the previous period is necessary, but not sufficient, to create a present obligation.

7 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.

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

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

10 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 6 and 9). 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.

11 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, the 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;

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

Levy costs shall be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

12 An entity shall recognise an asset if it has paid 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 the 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 determined 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 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, Entity A has a present obligation to pay the levy on revenues generated from 1 January 20X1 to the end of the interim period. As a result, the liability is recognised progressively over 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 determined 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, the liability is recognised in full in the first interim period of 20X1 because the liability is recognised in full on 3 January 20X1. The levy cost should be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

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 decided by reference to amounts in the statement of financial position of Entity C at the end of the annual reporting period, say 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 as a bank in the future. 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. 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 to operate as a bank at the end of the annual reporting period.

In the interim financial report, the liability is recognised in full in the last interim period of 20X1 because the liability is recognised in full on 31 December 20X1. The levy cost should be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

Example 4—A levy is triggered progressively 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 progressively if Entity D generates revenues above CU50 million[1] in 20X1. The amount of the levy is determined 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 progressively between 17 July 20X1 and 31 December 20X1 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, the liability is recognised progressively between 17 July 20X1 and 31 December 20X1. The levy cost should be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

Variation:

Same fact pattern as above (ie a levy is triggered progressively if Entity D generates revenues above CU50 million in 20X1), except that the amount of the levy is determined 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 is also recognised progressively between 17 July 20X1 and 31 December 20X1 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.

[1] In this staff paper, 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 a liability for other levies imposed by governments on entities. The questions relate to when the liability to pay a levy should be recognised and are linked to the definition of a liability in 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, levies are outflows 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 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 outflows of resources embodying economic benefits imposed by governments and therefore do not arise from contractual agreements.

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 undertaking a specific activity.

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 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).

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?

BC14 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.

BC15 The Interpretations Committee rejected this argument, noting that if this rationale were 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. 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.

BC16 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.

BC17 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).

BC18 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 principle imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?

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

BC20 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 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 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 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?

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

BC23 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.

BC24 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 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 progressively as the entity generates those revenues (see Illustrative Example 1).

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

BC26 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 all 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 6 and 9).

BC27 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 progressively 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 to operate on the specified date as identified by the legislation. Indeed, 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?

BC28 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.

Appendix B: Final interpretation (showing changes between the final interpretation and the draft interpretation published in May 2012)

~~[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 that is paying the levy. The questions relate to when the liability to pay a levy should be recognised and are linked to the definition of a ~~present obligation~~ liability 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 For the purposes of this Interpretation, levies are outflows 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.

3 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.

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

Issues

~~6~~5 To clarify the accounting for a liability to pay 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~~ be triggered by 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~~ 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 a liability to pay a levy that is triggered if a minimum threshold is reached?

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

~~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. The generation of revenues in the previous period is necessary, but not sufficient, to create a present obligation.

~~8~~7 An entity does not have a constructive obligation to pay a levy that will ~~arise from~~ be triggered by 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~~ be triggered by 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, the corresponding liability is recognised progressively as the entity generates those revenues.

10 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 6 and 9). 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.

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

~~12~~11 An entity shall apply ~~The~~ the same recognition principles ~~shall be applied~~ in the interim financial ~~statements~~ report as ~~are applied~~ in the annual financial statements. As a result, in the interim financial ~~statements~~ report, the liability to pay a levy ~~expense should not be~~:

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

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

Levy costs shall be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

12 An entity shall recognise an asset if it has paid 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 ~~[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~~ shall be 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 financial statements and in the interim financial ~~statements~~ report.

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

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, the liability is recognised progressively over the interim period. ~~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~~

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 in 20X1 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 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 ~~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 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, the liability is recognised in full in the first interim period of 20X1 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.~~ The levy cost should be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

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~~ statement of financial position of Entity C at the end of the annual reporting period, say 31 December 20X1. ~~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 as a bank 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. The conclusion would not change even ~~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.

In the interim financial report, the liability is recognised in full in the last interim period of 20X1 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.~~ The levy cost should be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

Example 4—A levy is triggered progressively 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 progressively if Entity D generates revenues above CU50 million[2] in 20X1. The amount of the levy is determined 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 progressively between 17 July 20X1 and 31 December 20X1 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, the liability is recognised progressively between 17 July 20X1 and 31 December 20X1. The levy cost should be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

Variation:

Same fact pattern as above (ie a levy is triggered progressively if Entity D generates revenues above CU50 million in 20X1), except that the amount of the levy is determined 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 is also recognised progressively between 17 July 20X1 and 31 December 20X1 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.

[2] In this staff paper, currency amounts are denominated in 'currency units' (CU).

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~~ imposed by governments on entities ~~that operate in a specific market~~. The questions relate to when the liability to pay a levy should be recognised and are linked to the definition of a ~~present obligation~~ liability in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

BC2 In particular, ~~the concerns expressed in~~ the request was for the Interpretations Committee ~~relate~~ to clarify how ~~what accounting treatment~~ an entity should ~~apply to~~ account for levies whose~~, the~~ calculation ~~of which~~ is based on financial data ~~that, in turn, is related~~ relating to a period ~~preceding the period in which~~ before the period containing the activity that triggers the payment of the levy ~~occurs~~. This is the case, for ~~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 ~~The Interpretations Committee observed that the~~ One of the questions raised in the submission ~~relates to~~ was 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~~. In those Agenda Decisions, the ~~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.~~ 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).

~~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, for the purposes of this Interpretation, levies are outflows 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 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 outflows of resources embodying economic benefits imposed by governments and therefore do not arise from contractual agreements.

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 undertaking a specific activity.

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.

~~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 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 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~~ an obligating event can occur only if ~~that~~ other events ~~must~~ have occurred previously. For example, ~~for levies charged by governments, the Interpretations Committee observed that,~~ for some levies ~~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~~ obliged to pay ~~a~~ 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~~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 occurs, 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). 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).

Does ~~the~~ economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will ~~arise from~~ be triggered by 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~~ an obligation to pay a levy that will be triggered by operating 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~~ 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 ~~emphasise~~ point to the definition of a constructive obligation in paragraph 10 of IAS 37 and ~~point out~~ conclude that an entity might ~~in practice~~ 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.

BC15~~11~~ The Interpretations Committee rejected this argument, noting that if this rationale were 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 As a result, ~~The~~ the Interpretations Committee ~~observed~~ concluded that, when an entity ~~has an economic compulsion~~ is economically compelled to incur operating costs that relate to the future conduct of the business, ~~it~~ 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.

BC17~~12~~ 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, ~~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 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 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)~~.

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~~ be triggered by 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~~ be triggered by operating in a future period?

BC19~~14~~ The Interpretations Committee noted that this issue is related to the ~~fundamental~~ basis of ~~preparing~~ preparation of 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~~ 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?

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, the corresponding liability is recognised progressively as the entity generates those revenues (see Illustrative Example 1).

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

BC26 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 all 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 6 and 9).

BC27 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 progressively 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 to operate on the specified date as identified by the legislation. Indeed, in that case, the reaching of the threshold in the previous period is necessary, but not sufficient, to create a present obligation.

~~Can the levy expense be anticipated or deferred in the interim financial statements~~ Are the principles for recognising a liability to pay a levy the same in the annual financial statements and in the interim financial report?

BC~~21~~28 IAS 34 *Interim Financial Reporting* (paragraph 29) states that the same recognition principles should be applied in the annual ~~and the interim~~ 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 ~~should~~ 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.

~~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 liability should be recognised ~~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.~~