STAFF PAPER

25 March 2014

IFRS Interpretations Committee Meeting

Project	**IFRIC 21 *Levies***
Paper topic	Identification of a present obligation to pay a levy that is subject to a pro-rata activity threshold as well as an annual activity threshold

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Introduction

1. The IFRS Interpretations Committee (the Interpretations Committee) received a request to clarify how the requirements in paragraph 8 of IFRIC 21 *Levies* should be interpreted in identifying an obligating event for a levy.

2. The submitter describes regimes in which an obligation to pay a levy arises as a result of activity during a period but is not payable until a minimum activity threshold, as identified by the legislation, is reached. The threshold is set as an annual threshold, but this threshold is reduced pro rata to the number of days in the year that the entity participated in the relevant activity, if its participation in the activity started or stopped during the course of the year.

3. The request asks for clarification on how the thresholds stated in the legislation should be taken into consideration when deciding “the activity that triggers the payment of the levy” in paragraph 8 of IFRIC 21.

4. The Interpretations Committee discussed this issue in November 2013. In that meeting, the Interpretations Committee observed that, in the light of the guidance in paragraph 12 of IFRIC 21, the obligating event for the levy is the reaching of the threshold that applies at the end of the assessment period.

5. This is because the entity would be subject to a threshold that is lower than the threshold that applies at the end of the annual assessment period if, and only if, the

entity stops the relevant activity before the end of the annual assessment period. The Interpretations Committee also noted that there is a distinction between a levy with an annual threshold that is reduced pro rata when a specified condition is met and a levy for which an obligating event occurs progressively over a period of time as described in paragraph 11 of IFRIC 21.

6. On the basis of the observations, the Interpretations Committee thought that the guidance in IFRIC 21 and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is sufficient and noted therefore that it is unlikely that significant diversity in interpretation on this issue will emerge. Accordingly, the Interpretations Committee tentatively decided not to add this issue to its agenda.

Comments received on the tentative agenda decision

7. We received two comment letters on the tentative agenda decision that was published in November 2013.

8. One respondent (the Canadian Accounting Standards Board (AcSB)) agrees with the decision not to add this issue to the Interpretations Committee's agenda for the reasons described in the tentative agenda decision.

9. The other respondent (Deloitte Touche Tohmatsu Limited (DTTL)) states that they agree with the Interpretations Committee's conclusion in respect of the recognition of a liability under IFRIC 21. They agree that IFRIC 21 requires recognition of a liability only when payment is triggered under the terms of the relevant legislation.

10. However, they express a concern over the pattern of expense recognition that may result from the conclusion in the tentative agenda decision. They recommend to the Interpretations Committee that it should consider providing guidance to clarify the accounting for the debit side in respect of the levies and other types of levies. This is because they think that in many cases there is no guidance in "other Standards" that are referred to in paragraph 3 of IFRIC 21.

Staff analysis

11. The request the Interpretations Committee received seeks clarification on how "the activity that triggers the payment of the levy" in paragraph 8 of IFRIC 21 should be interpreted when identifying an obligating event for the levies. In other words, the request asks for clarification on the credit side of the accounting for the levies.

12. As stated in paragraph 3 of IFRIC 21, the Interpretations Committee decided that IFRIC 21 should not address the accounting for the costs arising from recognising a liability to pay a levy (ie the debit side). This is because IFRIC 21 is an interpretation of IAS 37, which does not address whether expenditures are treated as expenses or as the cost of assets. Those issues are addressed in other IFRSs.

13. We note that both respondents agree with the Interpretations Committee's observation that the requirements in IFRIC 21 are sufficient in terms of the identification of an obligating event for the levies (ie the credit side). Thus, we think that the Interpretations Committee does not need to take further actions to address the issue analysed.

14. With respect to the comment received about concerns about the pattern of expense recognition, we note that paragraph 13 of IFRIC 21 requires that the same recognition principles should be applied in the interim financial report as are applied in the annual financial statements, as stated in IAS 34 *Interim Financial Reporting*.

15. When IFRIC 21 was developed, some argued that 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. They thought that IAS 34 and the interim accounting should be amended.

16. We note however that the Interpretations Committee discussed this argument and decided that IAS 34 should not be amended. This is because any change to IAS 34 might affect the accounting for other annual recurring operating expenses that are irregularly incurred during the financial year. The Interpretations Committee concluded that there should not be specific requirements introduced in IAS 34 applicable only to levies.

Staff recommendation

17. On the basis of the comments received on the tentative agenda decision and our analysis of them, we recommend that the Interpretations Committee should finalise the agenda decision without modifications to the wording of the tentative agenda decision. The proposed wording of the final agenda decision is presented in **Appendix A** to this Agenda Paper.

Questions for the Interpretations Committee

Questions
1. Does the Interpretations Committee agree with the staff's recommendation that the Interpretations Committee should finalise its decision not to add the issue to its agenda? 2. If the answer to Question 1 is 'Yes', does the Interpretations Committee agree with the wording of the final agenda decision in **Appendix A** to this Agenda Paper?

Appendix A—Proposed wording for the final agenda decision

IFRIC 21 *Levies*—Identification of a present obligation to pay a levy that is subject to a pro rata activity threshold as well as an annual activity threshold

In May 2013, the IASB issued IFRIC 21 *Levies*, which is effective for annual periods beginning on or after 1 January 2014, with earlier application permitted. IFRIC 21 provides an interpretation of the requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* for the recognition of liabilities for obligations to pay levies that are within the scope of IFRIC 21.

The Interpretations Committee received a request to clarify how the requirements in paragraph 8 of IFRIC 21 should be interpreted in identifying an obligating event for a levy. The Interpretations Committee discussed regimes in which an obligation to pay a levy arises as a result of activity during a period but is not payable until a minimum activity threshold, as identified by the legislation, is reached. The threshold is set as an annual threshold, but this threshold is reduced, pro rata to the number of days in the year that the entity participated in the relevant activity, if its participation in the activity started or stopped during the course of the year. The request asks for clarification on how the thresholds stated in the legislation should be taken into consideration when deciding "the activity that triggers the payment of the levy" in paragraph 8 of IFRIC 21.

The Interpretations Committee noted that in the circumstance described above, the payment of the levy is triggered by the reaching of the annual threshold as identified by the legislation. The Interpretations Committee also noted that the entity would be subject to a threshold that is lower than the threshold that applies at the end of the annual assessment period if, and only if, the entity stops the relevant activity before the end of the annual assessment period. Accordingly, the Interpretations Committee observed that in the light of the guidance in paragraph 12 of IFRIC 21, the obligating event for the levy is the reaching of the threshold that applies at the end of the assessment period. The Interpretations Committee noted that there is a distinction between a levy with an annual threshold that is reduced pro rata when a specified condition is met and a levy for which an obligating event occurs progressively over a period of time as described in paragraph 11 of IFRIC 21; until the specified condition is met, the pro rata reduction in the threshold does not apply.

On the basis of the discussions above, the Interpretations Committee thought that the guidance in IFRIC 21 and IAS 37 is sufficient and noted that it is unlikely that significant diversity in interpretation on this issue will emerge. Accordingly, the Interpretations Committee [decided] not to add this issue to its agenda.

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Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London
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Email: ifric@ifrs.org

21 January 2014

Dear Mr Upton

Tentative agenda decision – IFRIC 21 *Levies*: Identification of a present obligation to pay a levy that is subject to a pro rata activity threshold as well as an annual activity threshold

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the November IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for clarification on the recognition of a liability for an obligation to pay a levy with an annual activity threshold that is pro rated if the activity is engaged in for only part of the year.

We agree that the conclusion reached in the tentative agenda decision is consistent with paragraph 8 of IFRIC 21 in that it requires recognition of a liability only when payment is triggered under the terms of the relevant legislation. We are, however, concerned by the pattern of expense recognition that may result from the conclusion in the tentative agenda decision and recommend that the Committee consider the need for additional guidance on this issue in respect of this and other levies within the scope of IFRIC 21 given that in many cases there is no guidance in other Standards (as referred to in paragraph 3 of IFRIC 21).

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS Leader

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January 24, 2014

(By e-mail to ifric@ifrs.org)

IFRS Interpretations Committee
30 Cannon Street,
London EC4M 6XH
United Kingdom

Dear Sirs,

Re: Tentative agenda decision on IFRIC 21 *Levies*—Identification of a present obligation to pay a levy that is subject to a pro rata activity threshold as well as an annual activity threshold

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretations Committee's tentative agenda decision on the request to clarify how thresholds stated in legislations should be taken into consideration when deciding "the activity that triggers the payment of the levy" in paragraph 8 of IFRIC 21. This tentative agenda decision was published in the November 2013 IFRIC Update.

The views expressed in this letter take into account comments from individual members of the AcSB staff but do not necessarily represent a common view of the AcSB or its staff. Views of the AcSB are developed only through due process.

We agree with the Committee's decision not to add this item to its agenda for the reasons provided in the tentative agenda decision.

We would be pleased to provide more detail if you require. If so, please contact me at +1 416 204-3276 (e-mail pmartin@cpacanada.ca), or Rebecca Villmann, Principal, Accounting Standards at +1 416 204-3464 (email rvillmann@cpacanada.ca).

Yours truly

Peter Martin

Peter Martin, CPA, CA
Director, Accounting Standards