IFRS

STAFF PAPER

January 2015

IFRS Interpretations Committee Meeting

Project	**IFRIC 21 *Levies*–Levies raised on production property, plant, and equipment**		
Paper topic	Tentative agenda decision comment letter analysis		
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Purpose of this paper

1. In September 2014, the IFRS Interpretations Committee ('the Interpretations Committee') discussed two requests for clarification about IFRIC 21. IFRIC 21 is an Interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* The submitters requested clarification on how to account for the costs arising from a levy that is raised on production property, plant and equipment (PPE).

2. The submitters ask whether a particular levy is:

   (a) an administrative cost to be recognised as an expense as it is incurred; or

   (b) a fixed production overhead to be recognised as part of the cost of the entity's inventory in accordance with IAS 2 *Inventories*.

3. They also ask whether the 'matching' guidance in IAS 18 *Revenue* should be applied.

4. Our analysis of this issue was discussed in Agenda Paper 9 of the Interpretations Committee's September 2014 meeting, IFRIC 21 *Levies*–Levies raised on production property, plant and equipment. That paper is available on our web site:

   http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2014/September/AP09%20Levies%20on%20production%20assets.pdf

5. At its September 2014 meeting the Interpretations Committee tentatively decided not to add this topic to its agenda because:

    (a) it is not our practice to give case-by-case advice on individual fact patterns.

    (b) it is unlikely that addressing an individual type of levy will identify a more general principle that could be applied to the cost associated with different types of levies. IFRIC 21 points to other Standards to resolve whether costs are recognised as an expense or part of the cost of an asset and are to be recognised in accordance with another Standard.

    (c) it is unlikely that the Interpretation Committee could achieve consensus on the outcome of any assessment with respect to these costs.

6. For convenience, the tentative agenda decision, published in the September 2014 *IFRIC Update*, is included as Appendix B to this paper.

Paper structure

7. The paper is organised as follows:

    (a) comment letter summary;

    (b) summary and staff recommendation;

    (c) Appendix A–agenda decision, marked up with recommended changes; and

    (d) Appendix B–extract from Agenda Paper 10B.

8. The comment letters received on the tentative Agenda Decision published in *IFRIC Update* in September 2014 are attached as a separate Agenda Paper, Appendix C–Comment letters received.

Comment letter summary

Analysis of respondents

9. We received five comment letters on the tentative agenda decision:

Nature of respondent	Number
Standard-setters	1
Accounting firms	3
Regulator bodies	1

Total	5

Geographical location of respondent	Number
Asia and Oceania	1
Europe	1
Global	3
Total	**5**

10. The respondents discussed three aspects of the tentative agenda decision:

    (a) lack of guidance in IFRIC 21 re costs;

    (b) tension between the *Conceptual Framework* and the 'matching' concept; and

    (c) the Interpretations Committee's reluctance to give case-by-case guidance.

Lack of guidance in IFRIC 21 re costs

11. The agenda decision refers to the Interpretations Committee's inability to identify a principle for accounting for the costs side of a levy. Three respondents referred to this in greater detail:

    (a) The Australian Accounting Standards Board (the AASB) notes that IAS 37 does not specify whether expenditures are recognised as an asset or as an expense.

    (b) Deloitte refers to paragraph BC 14 of the Interpretation, which discusses expenses related to levies and concludes that the accounting for the costs associated with the levy would not be addressed by the Interpretation. Deloitte suggested including such a reference in the agenda decision to note that it would be inappropriate to address the treatment of costs within the context of an Interpretation that deals only with the recognition and measurement of a liability.

    (c) PricewaterhouseCoopers agrees with the decision not to take this topic onto the Interpretations Committee's agenda, because it thinks that both paragraphs 3 and BC14 of IFRIC 21 make it clear that the Interpretation does not address accounting for costs associated with the levy. They suggest removal of the reference to there being no underlying principle for the recognition of costs.

Tension between the **Conceptual Framework** *and the 'matching' concept*

12. Three respondents (Deloitte, Ernst & Young and PricewaterhouseCoopers) were concerned at the reference in the tentative Agenda Decision to the matching concept.

    (a) Deloitte thought that, by referring to a tension between the *Conceptual Framework* and the matching concept without offering a resolution, the wording of the tentative Agenda Decision suggests that diversity in practice is acceptable in circumstances in which this is not the case.

    (b) PricewaterhouseCoopers were also concerned about creating diversity in practice and recommend that the last two paragraphs of the agenda decision, referring to the tension with the *Conceptual Framework*, should be deleted.

    (c) Ernst & Young thought there was no conceptual basis for using 'matching' as a basis for the recognition of an asset in this case.

Reluctance to give case-by-case guidance

13. The agenda paper discussed in September notes that both submitters were in France and the levy is widely applied in that jurisdiction. One respondent (the AASB) is concerned that, by mentioning that it would be inefficient of the Interpretations Committee to deal with case-by-case fact patterns, the guidance implies that the submitters' circumstances is an isolated example that need not be addressed by the Interpretations Committee. They suggest deleting that reference to a case-by-case fact pattern. PricewaterhouseCoopers, on the other hand, agree that it is not efficient to deal with individual fact patterns.

Omission of reference to service providers' inventory

14. One respondent was concerned that one aspect of the September 2014 discussions was not recorded in the agenda decision. ESMA is concerned that although the agenda paper discussed in September 2014 implied that the inventory recognised by service providers need not relate to physical inventory, this topic had not been addressed in the agenda decision. The respondent asks for this issue to be explicitly addressed by the Interpretations Committee.

Other matters raised by respondents

15. Another respondent, Ernst & Young, raised a number of topics that were not addressed in the agenda decision:

(a) the interaction of IFRIC 21 with IAS 34 *Interim Financial Reporting*;

(b) the non-reciprocal nature of levies; and

(c) levies charged at a point in time.

The interaction of IFRIC 21 with IAS 34

16. The respondent asks for this issue to be added to the Interpretations Committee's agenda to clarify the treatment of annual costs incurred irregularly throughout the year. They suggest that if the Interpretations Committee thinks that this issue is too broad for its remit, it should refer the issue to the IASB. They consider that there are tensions between IFRIC 21 and examples in IAS 34. They also suggest that the agenda decision should refer to paragraphs 13 and BC 29 of IFRIC 21, which require an entity to apply the same recognition principles in the interim financial statements that it applies in annual financial statements.

The non-reciprocal nature of levies

17. The respondent notes that in a previous discussion, some members of the Interpretations Committee thought that levies are by nature non-reciprocal and, therefore, recognition of a prepaid expenses in relation to a levy would not be appropriate.

Levies charged at a point in time

18. The respondent also refers to paragraph 11 of IFRIC 21, which requires that the liability to pay a levy to be recognised progressively if the obligating event occurs over a period of time. The respondent does not think that the PPE-based levy that is the subject of this submission would meet this criterion. Consequently, they think that the agenda decision should reiterate the principles contained in paragraph 11 of that Interpretation.

Summary and staff recommendation

Lack of guidance in IFRIC 21 re costs

19. The tentative agenda decision already includes a reference to this lack of guidance in IFRIC 21. We recommend strengthening that reference by noting that paragraph 3 of IFRIC 21 specifically states that costs are not addressed in IFRIC 21.

20. We also note one respondent's comment that IAS 37 also does not deal with the recognition of either the expense or an asset. That respondent also recommends that the agenda decision should be revised to include that reference.

Tension between the **Conceptual Framework** *and the matching concept*

21. Three respondents were concerned at the reference in the tentative agenda decision to the matching concept, because they think that it might cause some readers to think that the *Conceptual Framework* is not clear or that diversity in practice is acceptable. We are sympathetic to these views.

22. The staff referred this matter to the *Conceptual Framework* team as requested by the Interpretations Committee. The topic was discussed by the IASB at its November 2014 meeting. The paper that formed the basis of that discussion was Agenda Paper 10B *Conceptual Framework*–Sweep Issues. That agenda paper is available on our website:

    http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/November/AP10B-CF.pdf

23. For convenience, an extract from the agenda paper is included as Appendix C to this paper.

24. In this paper the staff have noted that the *Conceptual Framework* is clear that ‘ the application of the matching concept under this *Conceptual Framework* does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities ’. The paper also reiterates the general concept:

    > Recognition is the process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the criteria for recognition set out in [the existing Conceptual Framework]

25. *IASB Update*, November 2014 notes that:

    > The IASB also noted that it believes that the tentative decisions it has already taken are sufficient to ensure that the revised Conceptual Framework will adequately explain the role of matching in IFRS, and will not conflict with IFRS 15 Revenue from Contracts with Customers.

26. We think that this discussion by the IASB adequately deals with this issue and, in view of respondents’ concern that the reference in the agenda decision to the *Conceptual Framework* and to matching might lead to confusion and diversity in practice, we recommend deleting this reference from the final agenda decision.

Reluctance to give case-by-case guidance

27. The staff accept that this wording could be confusing and did not mean to imply that the PPE levy imposed in France was an isolated example of a levy that was specific to the two submitters. The intention of this wording is to clarify that it

would not be efficient for the Interpretations Committee to analyse each individual levy or provide guidance on the treatment of an individual levy that had been raised. Globally there are likely to be many thousands of levies and the fact pattern of each will be specific to the type of levy–whether based on asset, revenues or another basis–as well as to the jurisdiction raising the levy.

28. The staff also note that one respondent, PricewaterhouseCoopers, thought the reference to the inefficiencies of case-by-case analysis was useful.

29. The staff recommend changing the wording to read that it is not efficient for the Interpretations Committee to clarify its intention by giving case-by-case guidance based on the fact patterns of individual levies.

Omission of reference to service providers' inventory

30. One respondent, ESMA, was concerned that one aspect of the September 2014 discussions was not recorded in the agenda decision.

31. The agenda paper discussed by the Interpretations Committee in September 2014 included the staff view that a number of paragraphs in IAS 2 *Inventories* were worded in such a way that the reader could conclude that a service provider could recognise inventory in the absence of physical inventory. The draft tentative agenda decision presented in that agenda paper included a reference to this conclusion:

> The Interpretations Committee agreed with the staff view that inventory recognised by service providers need not relate to physical inventories.

32. At its September 2014 discussions, some members of the Interpretations Committee were uncomfortable with this staff view and suggested that reference to this discussion should be deleted from the draft tentative agenda decision.

33. The staff do not recommend that the Interpretations Committee should address the issue of the nature of the inventory of service providers. This is a broad topic and, on the basis of the Interpretations Committee's discussions in September 2014, we think it would be unlikely to be resolved by the Interpretations Committee in an efficient manner.

Other matters raised by respondents

34. The staff notes Ernst & Young's concerns about a number of topics that were not addressed in the agenda decision:

    (a) the interaction of IFRIC 21 with IAS 34;

(b) the non-reciprocal nature of levies; and

(c) levies charged at a point in time.

35. Ernst& Young also asks for the interaction of IFRIC 21 with IAS 34 to be added to the Interpretations Committee's agenda.

36. The staff do not recommend adding these issues to the agenda decision. In the staff view, these issues were discussed by the Interpretations Committee when it developed IFRIC 21 and the Interpretations Committee's decisions on these matters are clearly stated in the Interpretation.

37. The staff also do not recommend adding the interaction of IFRIC 21 with IAS 34 to the Interpretation Committee's agenda. This topic was thoroughly discussed by the Interpretations Committee at its January 2013 meeting and the Interpretations Committee's decision, that the same recognition principles apply in interim and annual financial statements, is clearly stated in paragraphs 13 and BC 29 of IFRIC 21.

38. The January 2013 agenda paper and January 2013 *IFRIC Update* are available on our website:

Agenda paper:
http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2013/January/161301AP16%20-%20IFRIC%20Interpretation%20X%20Levies%20.pdf

Update:

http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2013/January/IFRICUpdateJan2013.pdf

Questions for the Interpretations Committee
1. Do you agree with the staff recommendations to add the following to the final agenda decision: (a) a reference to both paragraph 3 of IFRIC 21 and to IAS 37 with respect to the lack of guidance about costs in IFRIC 21; and (b) a reference to the Interpretations Committee's reluctance to provide guidance about the fact patterns of individual levies? 2. Do you agree with the staff recommendation to delete the reference to the *Conceptual Framework* and to matching in the final agenda decision? 3. Do you agree with the staff recommendation not to address the broader issue of the nature of the inventories of service providers in this agenda decision? 4. Do you agree with the revised wording of the final agenda decision in Appendix A?

Appendix A Agenda decision marked up with recommended changes

IFRIC 21 *Levies*—Levies raised on production PPE

The Interpretations Committee received two submissions relating to levies raised on production property, plant and equipment (PPE).

Paragraph 3 of IFRIC 21 *Levies* states that the Interpretation does not provide guidance on accounting for the costs arising from recognising a levy. The Interpretation notes that entities should apply other Standards to decide whether the recognition of an obligation for a levy gives rise to an asset or to an expense. The submitters, both service providers, asked whether the cost of a levy on productive assets is:

(a) an administrative cost to be recognised as an expense as it is incurred; or

(b) a fixed production overhead to be recognised as part of the cost of the entity's inventory in accordance with IAS 2 *Inventories*.

The Interpretations Committee noted that it had discussed the accounting for costs that arise from recognising the liability for a levy when the Interpretation was developed. At that time it had considered whether such costs would be recognised as an expense, a prepaid expense or as an asset recognised in accordance with IAS 2, IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets*. The Interpretations Committee decided not to provide guidance on this matter at that time because it could not identify a general principle for accounting for the costs side of a levy-based transaction. The Interpretation Committee also noted that IFRIC 21 is an Interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and that paragraph 8 of IAS 37 states that IAS 37 does not deal with the recognition of either the asset or expense associated with a liability.

In the light of this, the Interpretations Committee concluded that it would be unlikely that it would reach consensus on how the costs should be recognised in this particular case. It also noted that it would not be efficient to give case-by-case guidance based on the ~~individual~~ fact pattern~~s~~ of individual levies.

Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.

~~The Interpretations Committee thought, however, that these submissions raised a broader issue concerning annual costs that are incurred irregularly over the year. In its view, a discussion of these types of costs highlights an underlying tension between the notion of matching costs with revenues and the definition of an asset.~~

~~The Interpretations Committee asked the staff to prepare a short note summarising this fact pattern and submit it to the IASB's *Conceptual Framework* team for their consideration.~~

Appendix B Extract from Agenda Paper 10B *Conceptual Framework–Sweep issues* Discussed at the November 2014 meeting of the IASB

The role of matching in the recognition of assets and liabilities

The issue

10. The IFRS Interpretations Committee (the 'Interpretations Committee') recently considered a question that it thought highlighted an underlying tension between the notion of matching costs with revenues and the definition of an asset. It has asked the IASB to consider this possible tension in the *Conceptual Framework* project.

Background

11. In some jurisdictions, companies that hold specific types of production asset (such as telecommunications and gas distribution networks) are subject to a levy. The levy is linked to the existence of the production assets at a given date each year, typically 1 January. Applying IFRIC 21 *Levies*, the obligation to pay the levy is recognised as a liability on the given date. Two companies asked the Interpretations Committee to clarify whether the cost should be recognised as an asset or an expense. Amongst other things, the companies asked whether the matching principle in IAS 18 *Revenue* provides an adequate basis for recognising an asset. Paragraph 19 of IAS 18 states that:

> Revenue and expenses that relate to the same transaction or other event are recognised simultaneously; this process is commonly referred to as the matching of revenues and expenses.

12. The Interpretations Committee considered this matter at its September 2014 meeting. It noted that it had discussed the accounting for costs that arise from recognising the liability for a levy when IFRIC 21 was developed. At that time it had considered whether such costs would be recognised as an expense, a prepaid expense or as an asset recognised in accordance with IAS 2 *Inventories*, IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets*. The Interpretations Committee had decided not to provide guidance on this matter at that time

because it could not identify a general principle for accounting for the costs side of a levy-based transaction.

13. In the light of this previous decision, the Interpretations Committee concluded in September 2014 that it was unlikely that it would reach consensus on how the costs of this particular levy on production assets should be recognised. It also noted that it would not be efficient to give case-by-case guidance on individual fact patterns.

14. Consequently, the Interpretations Committee tentatively decided not to add this issue to its agenda.

15. The Interpretations Committee thought, however, that these submissions raised a broader issue concerning annual costs that are incurred irregularly over the year. In its view, a discussion of these types of costs highlighted an underlying tension between the notion of matching costs with revenues and the definition of an asset.

16. The Interpretations Committee asked the *Conceptual Framework* team to consider this question.

Staff analysis

References to matching in the existing Conceptual Framework

17. The existing *Conceptual Framework* refers to the role of matching in the recognition of expenses. It starts by noting that the recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or decrease in assets.[1] (This outcome is a consequence of defining income and expenses by reference to increases and decreases in assets and liabilities.)

18. The *Conceptual Framework* goes on to say that:

> Expenses are recognised in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income. This process, commonly referred to as the matching of costs with revenues, involves the simultaneous or combined recognition of revenues and expenses that result directly and jointly from the same transactions or other events; for example, the various components of expense making up

[1] Paragraph 4.49.

> the cost of goods sold are recognised at the same time as the income derived from the sale of the goods. However, the application of the matching concept under this Conceptual Framework does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities.[2]

19. This last sentence is consistent with the general concept that only items that meet the definition of an element are recognised in the statements of financial position and performance. The general concept is embodied in the description of recognition in the existing *Conceptual Framework*:

> Recognition is the process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the criteria for recognition set out in [the existing Conceptual Framework].[3]

References to matching in revenue Standards

20. IAS 18 requires entities to apply a matching process without explicitly requiring the resulting balances to meet the definition of an asset or a liability. However, IAS 18 will be superseded by IFRS 15 *Revenue from Contracts with Customers* for annual reporting periods beginning on or after 1 January 2017. IFRS 15 makes no reference to matching, and clarifies that fulfilment costs (ie costs to fulfil a contract with a customer) are eligible for recognition as assets only if they give rise to resources that will be used in satisfying performance obligations in the future and are expected to be recovered. The Basis for Conclusions accompanying IFRS 15 explains that those requirements ensure that only costs that meet the definition of an asset are recognised as such.[4]

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[2] Paragraph 4.50.

[3] Paragraph 4.37.

[4] IFRS 15, Basis for Conclusions, paragraph BC308.

Appendix C - Comment letters received

European Securities and Markets Authority

The Chair

Date: 21 November 2014
ESMA/2014/1395

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

Ref: The IFRS Interpretations Committee's tentative agenda decision on IFRIC 21 Levies - levies raised on production property, plant and equipment

Dear Mr Upton,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to respond to the IFRS Interpretations Committee's (IFRS IC) publication in the September 2014 IFRIC Update of the tentative decision related to the application of IFRIC 21 *Levies*. We are pleased to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRSs.

ESMA has considered the IFRS IC's tentative decision not to add to its agenda the requests to clarify accounting for the costs arising from recognising a levy.

Whereas ESMA agrees that the submission raised a broader issue that could only be addressed by the Board as part of developing concepts in the *Conceptual Framework*, ESMA has serious concerns that the wording of the tentative agenda decision could have unintended consequences. In particular, ESMA is concerned that the tentative agenda decision fails to clearly address the question whether a fixed production overhead can be recognised as part of the cost of a service provider's inventory. In our view the current wording taken together with the staff analysis, implying that inventory recognised by service providers need not relate to physical inventories, could create diversity in practice with impact on enforceability.

Therefore, ESMA urges the IFRS IC to clarify in its agenda decision whether a fixed production overhead can be recognised as part of the cost of the inventory of a service provider, and conclude whether the staff analysis of this issue is the correct understanding of the existing IFRS requirements.

We would be happy to discuss these issues further with you.

Yours sincerely,

Steven Maijoor
Chair
European Securities and Markets Authority

Australian Government
Australian Accounting Standards Board

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24 October 2014

Mr Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Wayne

Re: Tentative Agenda Decision on IFRIC 21 *Levies*

The AASB is pleased to respond to the IFRS Interpretations Committee's (the Committee) tentative decision (published in the September 2014 *IFRIC Update*) not to add to its agenda two requests for clarification on how to account for the costs arising from levies raised on production property, plant and equipment.

The AASB appreciates the Committee's deliberations on the issue and agrees with the tentative decision to remove the issue from the Committee's agenda. However, as outlined below, the AASB is concerned with the wording of the tentative agenda decision.

Fact pattern

The AASB considers the issue raised to the Committee is not an isolated example. This is made clear in paragraph 5 of the Committee staff paper which states that: *Both submitters are subject to the same levy and both have similarities in their business models*. Furthermore, the results of the Committee staff outreach indicate that levies are commonly raised on various items of production property, plant and equipment in France. The AASB considers the wording in the tentative agenda decision, below, implies the case provided in the submissions is an isolated example.

> "[The Committee] also noted that it would not be efficient to give case-by-case guidance on individual fact patterns"

Accordingly, the AASB recommends the sentence should be removed from the Committee's final agenda decision.

Scope

The issue of accounting for the costs arising from the levies was discussed by the Committee during the development of IFRIC 21 *Levies* in January 2013[1]. At that meeting, and consistent with the AASB comment letter[2], the Committee decided the Interpretation

1 http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2013/January/IFRICUpdateJan2013.pdf (accessed 24 October 2014)
2 http://www.aasb.gov.au/admin/file/content106/c2/AASB_letter_to_IASB_on_DI_2012_1_FINAL.pdf (accessed 24 October 2014)

should not provide guidance on whether levy costs are recognised as assets or expenses. This is because:

(a) the Committee could not identify an underlying the principle that could be applied to the debit entry associated with a levy; and

(b) IAS 37 *Provisions, Contingent Liabilities and Contingents Assets* does not specify whether expenditures are recognised as assets or expenses.

Consistent with the outcome from the January 2013 Committee meeting, the Committee noted it would be unlikely that further discussions on how to account for the costs arising from levies raised on production property, plant and equipment would lead to identifying an underlying principle for accounting for the debit entry associated with a levy. The AASB considers the final agenda decision should capture this reasoning and, therefore, recommend the final agenda decision states that the issue is too broad for the Committee to deal with. Suggested wording for the final agenda decision is provided in the Appendix to this letter.

If you require further information on the matters raised above, please do not hesitate to contact me or Mitchell Bryce (mbryce@aasb.gov.au).

Yours sincerely

Angus Thomson
Acting Chair

Appendix: AASB recommended wording for final agenda decision (deleted text struck though, additional text underlined)

The Interpretations Committee received two submissions relating to levies raised on production property, plant and equipment (PPE).

IFRIC 21 *Levies* does not provide guidance on accounting for the costs arising from recognising a levy. The Interpretation notes that entities should apply other Standards to decide whether the recognition of an obligation for a levy gives rise to an asset or an expense. The submitters, both service providers, asked whether the cost of a levy on productive assets is:

(a) an administrative cost to be recognised as an expense as it is incurred; or

(b) a fixed production overhead to be recognised as part of the cost of the entity's inventory in accordance with IAS 2 *Inventories*.

The Interpretations Committee noted that it had discussed the accounting for costs that arise from recognising the liability for a levy when the Interpretation was developed. At that time it had considered whether such costs would be recognised as an expense, a prepaid expense or as an asset recognised in accordance with IAS 2, IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets*. The Interpretations Committee decided not to provide guidance on this matter at that time because it could not identify a general principle for accounting for the costs side of a levy-based transaction.

In the light of this, the Interpretations Committee concluded that it would be unlikely that it would reach consensus on how the costs should be recognised in this particular case. ~~It also noted that it would not be efficient to give case-by-case guidance on individual fact patterns.~~

Consequently, the Interpretations Committee noted that to develop guidance on the accounting for costs that arise from recognising the liability for a levy would be too broad an issue for the Committee to deal with and, therefore, [decided] not to add this issue to its agenda.

The Interpretations Committee thought, however, that these submissions raised a broader issue concerning annual costs that are incurred irregularly over the year. In its view, a discussion of these types of costs highlights an underlying tension between the notion of matching costs with revenues and the definition of an asset.

The Interpretations Committee asked the staff to prepare a short note summarising this fact pattern and submit it to the IASB's *Conceptual Framework* team for their consideration.

Deloitte.

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Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
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25 November 2014

Dear Mr Upton

Tentative agenda decision – IFRIC 21 *Levies*: Levies raised on production property, plant and equipment

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the September IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for guidance on whether the cost of a levy raised on production property, plant and equipment is an administrative cost to be recognised as an expense when incurred or a fixed production overhead to be recognised as part of the cost of inventory.

We agree with the IFRS Interpretations Committee's analysis of the development of IFRIC Interpretation 21 and welcome the decision to submit this issue to the IASB's Conceptual Framework team. However, we are concerned that the discussion of 'matching costs' in the tentative agenda decision could, by referring to a tension in financial reporting without offering any resolution and by not specifying that the Conceptual Framework does not allow application of the matching concept to result in recognition of items that do not meet the definition of assets, suggest that diverse practices are acceptable in circumstances where this is not the case.

For this reason, we recommend that this paragraph of the tentative agenda decision be deleted and replaced by a statement that:

"The Interpretations Committee noted that, consistent with the decision noted in paragraph BC14 of the Basis for Conclusions on IFRIC 21, it would be inappropriate to address the treatment of costs of a levy in the context of an interpretation of a standard that deals only with the recognition and measurement of liabilities."

Deloitte.

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

Yours sincerely

Veronica Poole
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INVESTOR IN PEOPLE

International Financial Reporting Standards Interpretations Committee
30 Cannon Street
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17 November 2014

Dear IFRS Interpretation Committee members,

Invitation to comment – *Tentative agenda decision – IFRIC 21 Levies – Levies raised on production property, plant and equipment*

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above tentative decision of the IFRS Interpretations Committee ('Committee') published in the September 2014 IFRIC Update.

The Committee received two submissions relating to levies raised on production property, plant and equipment (PPE). IFRIC 21 *Levies* does not provide guidance on accounting for the costs arising from recognising a levy. The Interpretation notes that entities should apply other Standards to decide whether the recognition of an obligation for a levy gives rise to an asset or an expense. The submitters, both service providers, asked whether the cost of a levy on productive assets is:

a. an administrative cost to be recognised as an expense as it is incurred; or
b. a fixed production overhead to be recognised as part of the cost of the entity's inventory in accordance with IAS 2 *Inventories*.

It was tentatively concluded:

> 'The Interpretations Committee noted that it had discussed the accounting for costs that arise from recognising the liability for a levy when the Interpretation was developed. At that time it had considered whether such costs would be recognised as an expense, a prepaid expense or as an asset recognised in accordance with IAS 2, IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets*. The Interpretations Committee decided not to provide guidance on this matter at that time because it could not identify a general principle for accounting for the costs side of a levy-based transaction.
>
> In the light of this, the Interpretations Committee concluded that it would be unlikely that it would reach consensus on how the costs should be recognised in this particular case. It also noted that it would not be efficient to give case-by-case guidance on individual fact patterns.
>
> Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.
>
> The Interpretations Committee thought, however, that these submissions raised a broader issue concerning annual costs that are incurred irregularly over the year. In its view, a discussion of these types of costs highlights an underlying tension between the notion of matching costs with revenues and the definition of an asset.
>
> The Interpretations Committee asked the staff to prepare a short note summarising this fact pattern and submit it to the IASB's *Conceptual Framework* team for their consideration.'

Clarity required for interim reporting

We agree with the Committee's observation that these submissions raise a broader issue concerning annual costs incurred irregularly over the year, and urge the Committee to add this broader issue and the tension between IAS 34 and IFRIC 21 onto its agenda, to clarify the treatment for such costs at interim periods. If the Committee believes addressing this broader issue is beyond its remit, we would urge the Committee to refer this to the Board and we would urge the Board to address this as a matter of priority.

Firstly, when noting that '... a discussion of these types of costs highlights an underlying tension between the notion of matching costs with revenues and the definition of an asset' it is unclear whether the Committee meant that application of the 'matching' principle resulting in the recognition of a prepaid asset for the levy would be inappropriate for the fact pattern presented in the submissions. The Conceptual Framework is explicit that the application of the 'matching' concept under IFRS does not allow the recognition of items in the balance sheet that do not meet the definition of assets or liabilities. Hence we do not believe there to be a conceptual basis to use 'matching' for the recognition of an asset in this case.

Secondly, examples B1 and B7 in Appendix B of IAS 34 *Interim Financial Reporting* could lead an entity to include an annually assessed levy in the measurement of the related expense and recognise this cost (and an asset or a liability) at an interim reporting date in spite of the fact that, on the one hand, a large portion of the payments may have been made earlier in the financial year or, in the other example, where an obligation is only expected to occur subsequent to the interim reporting date. We have previously, in our submission on the draft interpretation of IFRIC 21, alluded to the tension between the examples in IAS 34 and the application of the principles in IFRIC 21 for interim financial reporting. We also note that, during the finalisation of IFRIC 21, the Committee had emphasised the requirements in IAS 34 paragraph 28 that entities should use the same accounting policies as applied at year-end (see IFRIC 21 paragraph 13 and BC 29) and had dismissed the above examples as a basis for the recognition of an asset in the interim financial statements. It would be helpful to reiterate this point in the final agenda decision.

Principles of accounting for the corresponding debit entry relating to levy liabilities recognised

Non-reciprocal nature
The Committee noted in the agenda decision that 'it would be unlikely that it would reach consensus on how the costs should be recognised in this particular case,' which implies that divergence in practice on treatment of such costs is expected by the Committee. The Committee mentions three different views on the corresponding debit when recognising the liability: expense, deferred expense or an IAS 2, IAS 16 or IAS 38 asset. However, we do not believe that recording the costs associated with the levies as described in the submission as a prepaid expense is appropriate. During the Committee's discussion at the July meeting, some Committee members noted that levies (including annual/periodic levies) are by nature, non-reciprocal, therefore recognition of a prepaid expense would be inappropriate as by definition there is no further good or service to be received for which this would be a prepayment. We agree with this view and recommend that the Committee clarify this in the agenda decision to prevent entities from inappropriately recognising a prepaid expense when recognising a liability for such levies.

Levies charged at a point in time measured based on balance sheet amounts
Paragraph 11 of IFRIC 21 is clear that a liability for a levy is only recognised progressively if the obligating event occurs over a period of time, i.e. for levies that are measured based on amounts of revenues or expenses, it could be concluded that the activities on which the levy is accumulated

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are those conducted over the measurement period. However, it would be helpful to preparers if the Committee reiterates this principle in the agenda decision, and clarify that for levies the triggering event of which happens at a point in time and the levies are measured based on balance sheet amounts on that particular date, there would be no basis for a progressive recognition of the liability and therefore no conceptual basis for the progressive recognition of the associated costs. In other words, where the triggering event happens at a point in time and, the basis for measurement of the levy amount is based on an amount at a point in time (e.g. balance sheet amount), we find it difficult to see any conceptual basis for recognition of the expense over time before that date or a recognition of the expense over time after that date, unless another standard allows or requires such. In addition, determining whether the cost of such a levy can be capitalised as part of the cost of an asset is a separate issue, to be determined based upon the requirements of standards such as IAS 2 *Inventories* and IAS 16 *Property, Plant and Equipment*.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 (0)20 7951 3152.

Yours faithfully

Ernst + Young Global Limited

Mr Michael Stewart
Director of Implementation Activities
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

24 October 2014

Dear Mr Stewart

Tentative agenda decision: IFRIC 21 Levies—levies raised on production property, plant and equipment

We are responding to the invitation to comment on behalf of PricewaterhouseCoopers on the above Tentative Agenda Decision, published in the September 2014 edition of IFRIC Update. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the Tentative Agenda Decision. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We agree with the Committee's decision not to take this item onto the agenda. IFRIC 21 paragraph 3 is clear that the Interpretation does not address the accounting for any asset or expense that arises from recognition of a liability. Other standards determine whether an obligation to pay a levy gives rise to an asset or an expense and we agree that it would not be efficient for the Committee to provide 'case-by-case guidance on individual fact patterns'.

We are concerned, however, that the tentative agenda decision will create confusion on how to apply the existing IFRS guidance and might create diversity in practice that does not exist today. The tentative agenda decision refers to the 'underlying tension between the notion of matching costs with revenues', which suggests that there is a conflict in the existing Framework. The Framework is clear on this issue. Paragraph 4.50 of the Framework states that: 'the application of the matching concept under this Conceptual Framework does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities.' We, therefore, recommend that the last two paragraphs be deleted. The Committee might still decide to draw the IASB's attention to this issue but this should not be incorporated into the tentative agenda decision. Should the Committee decide to refer to this issue in the final agenda decision, we suggest that the text refers specifically to the guidance in the Framework.

The tentative agenda decision also states that the Committee 'could not identify a general principle for accounting for the costs side of a levy-based transaction'. This statement implies that there are no consistent [existing] principles for the accounting for such costs. This statement is inconsistent with BC14 of IFRIC 21 where the Committee observed 'that other Standards would determine whether the recognition of the liability to pay a levy gives rise to an asset or an expense.' There is guidance in other standards that addresses the accounting for the asset or expenses. There is also clear guidance in IAS

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34 that addresses the accounting in interim financial statements for costs that occur irregularly. We therefore suggest that this reference in the tentative agenda decision is also removed.

If you have any questions in relation to this letter please do not hesitate to contact Paul Fitzsimon (+1 416 869 2322) or Tony de Bell (+44 20 7213 5336).

Yours sincerely

PricewaterhouseCoopers