



# Memorandum

<b>To:</b>	<b>AASB members</b>	<b>Date:</b>	2 July 2013
<b>From:</b>	<b>Ahmad Hamidi</b>	<b>Agenda Item:</b>	16.1 (M132)
<b>Subject:</b>	<b>IFRIC 21 and the Australian Carbon Tax</b>	<b>File:</b>	

## Action

Consider an issues paper addressing the possible implications of Australian Interpretation 21 *Levies* for the accounting for an emitter's emission liability under the fixed price phase of the Carbon Pricing Mechanism (CPM) with a view to identifying whether there is any further work staff should undertake.

## Attachments

Agenda paper 16.2 - Issues paper: Examining the Implications of Australian Interpretation 21 *Levies* for Emission Liabilities under the Fixed Price Phase of the Carbon Pricing Mechanism

## Background

An AASB staff paper *Possible Financial Reporting Implications of the Fixed Price Phase of the Carbon Pricing Mechanism for Emitter Entities* was issued in July 2012 (updated mainly for some legislative changes in February 2013). The staff paper contains staff views about the application of AASB 137 (IAS 37) *Provisions, Contingent Liabilities and Contingent Assets* to the emission liability of emitters.

In April 2013 the AASB considered the then proposed *Levies* Interpretation and decided to consider any scope implications of the Interpretation at a future meeting.<sup>1</sup> (Agenda paper 16.2 is the staff's initial response to that decision). The AASB issued Australian Interpretation 21 in June 2013 and incorporates IFRIC 21 *Levies* that was issued by the IASB in May 2013. Australian Interpretation 21 addresses the accounting for a liability to pay a levy if that liability is within the scope of AASB 137.

Amongst other things, Australian Interpretation 21 addresses the following issues, which might be seen as being particularly relevant to recognition of an emission liability by emitters, if it is argued that the scoping out of ETSs does not apply to the fixed price phase of the Carbon Pricing Mechanism (CPM) also known as 'carbon tax':

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<sup>1</sup> [http://www.aasb.gov.au/admin/file/content102/c3/AASB\\_Minutes\\_Meeting\\_130\\_Unsigned.pdf](http://www.aasb.gov.au/admin/file/content102/c3/AASB_Minutes_Meeting_130_Unsigned.pdf) (accessed 1 July 2013).

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

## Overview

Agenda paper 16.2 addresses the implications of Australian Interpretation 21 in the light of facts and circumstances pertinent to the fixed price phase of the CPM. Emission trading schemes have been scoped out in Australian Interpretation 21. The paper does not focus on whether the fixed price phase of the CPM is within the scope of Australian Interpretation 21. Instead it argues that, even if it is considered that Interpretation 21's scoping out of emission trading schemes does not apply to the fixed price phase of the CPM, relevant legislative and regulatory requirements could affect whether a liability should be recognised even before an annual threshold of emissions is reached. It concludes that the recognition of a liability for the carbon tax might only be delayed until the annual threshold is met in a limited number of cases where new emitter facilities are involved.

The paper expresses a staff view that the position taken in AASB staff paper on accounting for carbon tax by emitters (issued in July 2012)<sup>2</sup> is arguably consistent with the legislative and regulatory requirements<sup>3</sup> in regard to the application of AASB 137. Staff have asked the Board whether the analysis and views expressed in the issues paper would warrant an amendment to the AASB staff paper to clarify any implications of Australian Interpretation 21 for the fixed price phase of the CPM.

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2 See [http://www.aasb.gov.au/admin/file/content102/c3/AASB\\_Staff\\_Paper\\_Financial\\_Reporting\\_Implications\\_of\\_Carbon\\_Tax\\_for\\_Emitter\\_Entities.pdf](http://www.aasb.gov.au/admin/file/content102/c3/AASB_Staff_Paper_Financial_Reporting_Implications_of_Carbon_Tax_for_Emitter_Entities.pdf) (accessed 1 July 2013).

3 Staff will expand on some of the clarifications received through correspondence with Clean Energy Regulator in regard to legislative and regulatory requirements at the forthcoming AASB meeting.