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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 2013¹. At that meeting, and consistent with the AASB comment letter², 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)

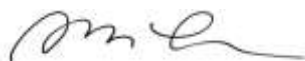
should not provide guidance on whether levy costs are recognised as assets or expenses. This is because:

- (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 through, 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.