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Dear Kevin

DRAFT IFRIC INTERPRETATION D1/2012/1 LEVIES CHARGED BY PUBLIC AUTHORITIES ON ENTITIES THAT OPERATE IN A SPECIFIC MARKET

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on the International Accounting Standards Board's (the Board) Draft IFRIC Interpretation DI/2012/1 Levies Charged by Public Authorities on Entities that Operate in a Specific Market. We have considered the DI, as well as the accompanying draft Basis for Conclusions.

Grant Thornton's response reflects our position as auditors and business advisers to the Australian business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations (NFPs). This submission has benefited with input from our clients, Grant Thornton International which will be finalising a global submission to the IASB by its due date of5 September 2012, and discussions with key constituents.

We agree that diversity in practice exists in how entities account for the obligation to pay certain levies charged by public authorities, and that there is therefore a need for guidance in this area. We also agree that the DI is a technically correct interpretation of the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

We do however have certain concerns over the scope of the DI. We are also aware of concerns over whether the DI will provide useful information to the reader of the financial statements in some situations. While we are broadly supportive then of the proposals in the DI as a way of reducing diversity in practice in the short term, we suggest that there is a need for the IASB to undertake a broader review of the issues relating to accounting for taxes other than income taxes in due course.

We expand on these comments in our responses to the specific questions in the DI's Invitation to Comment below.

Question 1 - Scope

The draft Interpretation addresses the accounting for levies that are recognised in accordance with the definition of a liability provided in IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Levies that are within the scope of the draft Interpretation are described in paragraphs 3–5. Do you agree with the scope proposed in the draft Interpretation? If not, what do you propose and why?

We are concerned that the scope of the DI is wider than the Interpretations Committee intended it to be. While the title of the DI implies that it is narrow in scope, referring to levies on entities that operate in a specific market, paragraph 5(b) indicates that that phrase is to be interpreted widely, listing "a specific country, a specific region or a specific market in a specific country" as examples. The DI would then seemingly capture levies such as property taxes that apply to all entities within a tax jurisdiction.

We question whether this was the intention of the Interpretations Committee. If it was not, we suggest that the words in brackets in paragraph 5(b) are removed. The reference to a "specific country" in particular, does not seem helpful given that tax legislation is inherently country specific in nature. More generally, the bracketed words seem superfluous given the similar examples in paragraph 5(d).

If on the other hand the current wording does accurately reflect the intention of the Interpretations Committee, then we believe the title of the DI should be changed to reflect the fact that its scope is broader than the current title implies. If the Interpretations Committee goes down this route however, we suggest that it conducts research into the extent to which the DI would alter the accounting for taxes other than income taxes prior to finalising it.

We are also concerned that the scope of the DI will not be clear in some situations: The DI states that it does not address the accounting for taxes based on a taxable profit as they are within the scope of IAS 12 *Income Taxes*. Whether a tax is within or outside the scope of IAS 12 can however be a question of interpretation in some situations, a point that the Interpretations Committee has itself noted. While we accept that cross referencing the scope of the DI to the scope of IAS 12 is necessary, it does mean that the DI will also be affected by these questions of interpretation. We therefore suggest that the Interpretations Committee asks the IASB to look at clarifying the scope of IAS 12 at some stage in the future. We note incidentally in relation to this matter that paragraph 4(a) of the DI uses the phrase "(ie a net amount of revenues and expenses)" in describing taxes based on a taxable profit. We suggest this phrase is removed given that it is not used in IAS 12 or an IFRIC Interpretation.

We also recommend that the Interpretations Committee clarifies whether the DI applies solely to those levies that have all of the characteristics listed in paragraph 5 or whether it is

possible to apply it to levies that are outside the scope of IAS 12 but which have only some of the characteristics.

Question 2—Consensus

The consensus in the draft Interpretation (paragraphs 7–12) provides guidance on the recognition of a liability to pay a levy. Do you agree with the consensus proposed in the draft Interpretation? If not, why and what alternative do you propose?

We agree with the consensus in the DI on the basis that it is a technically correct interpretation of the requirements of IAS 37.

We are however aware of concerns over whether the DI will provide the most useful information to readers of the financial statements for levies where the obligating event occurs at a point in time rather than over a period of time. While we acknowledge that the 'all or nothing' pattern of expense recognition that will result from the consensus in the DI is in accordance with the requirements of IAS 37, it is questionable whether it is the most accurate reflection of the substance of the transaction from the perspective of the entity that is required to pay such a levy.

Taking Example 2 in the DI for instance, the consensus will result in the expense being recognised in full in the first interim period. This would also be the case where a levy is charged if an entity operates as a bank at the beginning of the annual reporting period (a variant on the fact pattern in Example 3 in the DI).

While we acknowledge the view that such levies are operating costs which should be expensed as incurred, it can alternatively be argued that the overriding substance of these transactions is the payment of a charge by the entity in return for being able to operate (in the market in concern) for the entire annual period. It is arguable that in such situations recognising the levy over the entire period would provide more useful information to the reader of the financial statements.

We acknowledge however that altering the consensus in the DI would involve departing from IAS 37's principles. While we note that IAS 37's principles are not always followed in relation to the recognition of certain other liabilities, we accept that departing from them would widen the scope of the project considerably and is not feasible in the short-term. We suggest however that the IASB should in due course undertake a broader review of the issues relating to accounting for taxes other than income taxes and whether it is appropriate for them to be accounted for under IAS 37.

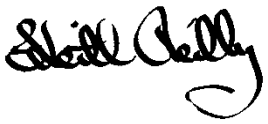
Question 3—Transition

Entities would be required to apply the draft Interpretation retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Do you agree with the proposed transition requirements? If not, what do you propose and why?

We agree with the proposed transition requirements. We are not aware of obstacles that would make retrospective application of the proposed requirements unduly onerous for entities. We therefore consider IAS 8's default position of retrospective application appropriate.

If you require any further information or comment, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED



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National Head of Professional Standards