



Kevin Stevenson  
Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West VIC 8007

via email: [standard@asb.gov.au](mailto:standard@asb.gov.au)

17 October 2012

Dear Kevin

**Re: AASB ED 225, IFRS IC DI/2012/1 and DI/2012/2**

I am enclosing a copy of PricewaterhouseCoopers' responses to the following International Accounting Standards Board's (IASB) and IFRS Interpretation Committee (IFRS IC) exposure drafts:

- AASB ED 225 *Annual Improvements to IFRSs 2010–2012 Cycle*
- IFRIC Interpretation DI/2012/1 *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*
- IFRIC Interpretation DI/2012/2 *Put Options Written on Non-controlling Interests*

The letters reflect the views of the PricewaterhouseCoopers (PwC) network of firms and as such include our own comments on the matters raised in the exposure draft. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

**AASB specific matter for comment – ED 225**

We are not aware of any regulatory or other issues that could affect the implementation of either of the proposals for not-for-profit and public sector entities.

Subject to our concerns about specific matters as expressed in our submissions to the IASB, the proposals would result in financial statements that would be useful to users. Should the proposed amendments be approved by the IASB, we are not aware of anything that would indicate that the proposals are not in the best interests of the Australian economy.

We agree with the AASB's conclusions in relation to the proposed Tier 2 disclosures, being to exclude the new disclosures proposed under AASB 136 but not to provide any exemption for the new AASB 8 disclosures for the reasons set out in ED 225.

**PricewaterhouseCoopers, ABN 52 780 433 757**  
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**Interpretation DI/2012/1 – Levies on entities that operate in a specific market**

Our submission does not support the draft interpretation DI/2012/1 for various reasons set out in the enclosed letter. Amongst others, we are concerned about the accounting for levies that are subject to volume thresholds.

An example for such levies are payments for carbon emissions that will be required under the Clean Energy Legislation (*Clean Energy Act 2011* and supporting legislation). We agree with the AASB staff's view that an emissions liability should be recognised as the emissions are made. If the draft interpretation was approved by the IASB in its present form, it would appear that a liability could only be recognised once the volume threshold is exceeded in a particular year.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (03) 8603 5371 if you would like to discuss our comments further.

Yours sincerely

A handwritten signature in blue ink that reads 'Margot Le Bars'.

**Margot Le Bars**

Partner, PricewaterhouseCoopers



4 September 2012

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

**Re: Draft IFRIC Interpretation DI/2012/1– Levies Charged by Public Authorities on Entities that Operate in a Specific Market**

We are pleased to respond to the invitation by the IASB to comment on the Draft IFRIC Interpretation, 'Levies Charged by Public Authorities on Entities that Operate in a Specific Market' (the 'draft interpretation') on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those member firms that commented on the exposure draft.

'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

**Overview**

We do not support the draft interpretation. We understand how some might believe that the existing guidance in IAS 37 and IFRIC 6 supports the conclusions in the draft interpretation, but we believe the application of these conclusions will result in accounting that does not reflect the economic substance of many levies.

The substance of many levies is an annual charge similar to annual licences or fees, which are best reflected in the financial statements by an even pattern of expense recognition over the period covered by the levy. The accounting proposed by the draft interpretation will, in some cases, result in an uneven pattern of expense recognition. This will not provide useful information to the users of financial statements. We are also concerned that the recognition of the liability will be determined in some cases by non-substantive conditions, such as making sales or being in business on a specific date.

There are many levies imposed on entities operating in different jurisdictions around the world. We are concerned that the draft interpretation proposes a specific accounting model that would be applied across a wide range of levies with different economic characteristics. We acknowledge that there might be diversity in practice in the accounting applied today, but this might reflect different economic characteristics of different levies. We believe that the accounting should be determined by the economic substance of each levy.

We do not believe the Committee should proceed with this interpretation for the reasons described above. We acknowledge that there might be some diversity in practice; we therefore suggest that, instead of proceeding with the draft interpretation, the Committee recommend to the Board that the existing definition of an obligating event in IAS 37 is reassessed in the context of levies when the Board initiates a project to revise IAS 37.



We recommend that, if the Committee decides to proceed with an interpretation, it should not prescribe the pattern of expense recognition because this is beyond the scope of an interpretation of IAS 37. The draft interpretation is an interpretation of IAS 37, which addresses the recognition and measurement of provisions. IAS 37 does not address the pattern of expense recognition.

We are also concerned that the proposed scope of the interpretation is very broad and might capture a wide range of taxes, such as annual property taxes, licences and emissions charges. There is also no clear definition of a levy. We recommend that if the Committee decides to proceed with an interpretation, it should define a levy and reconsider and narrow the scope of the guidance.

We have commented specifically on the questions raised in the draft interpretation in the appendix to this letter.

If you have any questions, please contact John Hitchins, PwC Global Chief Accountant (+44 207 804 2497) or Tony de Bell (+44 207 213 5336).

Yours faithfully,

*PricewaterhouseCoopers*



## APPENDIX

### **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 do not believe the Committee should proceed with this interpretation for the reasons described in the attached covering letter. However, if the Committee decides to proceed with an interpretation, we recommend that the scope of the guidance should be reconsidered and narrowed.

The proposed scope is very broad, and the draft interpretation might apply to more charges than many anticipate. For example, it would apply to a non-refundable annual property tax triggered by owning a property on a particular date or to a payment triggered by carbon emissions above a specific threshold. The interpretation might therefore have unintended consequences and change the accounting for transactions where there is currently no diversity in practice. The scope should therefore be revised and narrowed.

The draft proposals include a list of the characteristics of levies but no definition of a levy. We believe that it is difficult to determine the scope of the draft interpretation in the absence of a clear definition. We recommend that the Committee develop a definition of a levy before proceeding with an interpretation. This would allow the Committee to define the scope of the interpretation clearly and exclude a wide range of charges where there is no reason to change the current accounting.

If the Committee decides to proceed with the interpretation it should also:

- explain what distinguishes a fine or penalty from a levy. For example, is a charge on carbon emissions above a certain level a fine for exceeding the threshold or a levy for emitting? We agree that the interpretation should not apply to fines and penalties, but levies that have the same substance should also be outside the scope. A clear explanation of the differences is therefore necessary;
- explain what differentiates a levy from a non-refundable payment for an annual operating licence. The economic substance of an annual licence payment is identical to the payment of an annual levy for being on a specific market; the accounting should therefore be the same. We believe the interpretation should not apply to annual licences, but many levies have the same substance and should also be outside the scope. A clear explanation of the differences is therefore necessary;
- explain the reference to 'specific market'. The draft interpretation appears to apply to a wide range of charges, not just those applied to a specific industry or country. The characteristics in paragraph 5 (b) and (d) duplicate each other and do not limit the scope of the interpretation; and
- clarify the term 'public authority'. This term should be interpreted consistently with the definition of government in IAS 20 and IAS 24, but this should be stated explicitly.



We believe the scope of the draft interpretation should be narrowed; however, excluding levies with a minimum revenue threshold from the scope is inconsistent with the principle in the draft interpretation and will not reduce diversity in practice. We are also aware that some levies are subject to different thresholds – for example, volumes – so it is not clear why the scope exclusion applies only to levies subject to a revenue threshold. We suggest the Committee reconsiders the approach to levies that are subject to any threshold and, if it decides to proceed with an interpretation, requires the same accounting to be applied to all levies.

### **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 do not support the draft interpretation for reasons described in the attached covering letter. We understand how some might believe the existing guidance in IAS 37 and IFRIC 6 supports the conclusions in the draft interpretation, but we believe the application of these conclusions will result in accounting that does not reflect the economic substance of many levies. We believe that the accounting should be determined by the economic substance of each levy.

The substance of many levies is an annual charge similar to an annual licence or fee. This substance is best reflected in the financial statements by an even pattern of expense recognition over the period covered by the levy. The accounting proposed by the draft interpretation will, in some cases, result in an uneven pattern of expense. It will also result in different accounting for levies that are economically similar but are triggered by different non-substantive conditions. For example, economically identical annual levies for operating in 2012 might be triggered in one market on 1 January 2012, in another market on 31 December 2012, and in another market on 1 January 2013. The draft interpretation would require different patterns of expense recognition in different periods for each levy, although the economic substance of the three levies is the same.

We do not believe the Committee should proceed with this interpretation. We acknowledge that there might be some diversity in practice and we therefore suggest that, instead of proceeding with the draft interpretation, the Committee recommend to the Board that the existing definition of an obligating event in IAS 37 is reassessed in the context of levies when the Board initiates a project to revise IAS 37.

We recommend that, if the Committee decides to proceed with an interpretation, it should not prescribe the pattern of expense recognition because this is beyond the scope of an interpretation of IAS 37. The draft interpretation is an interpretation of IAS 37, which addresses the recognition and measurement of provisions. IAS 37 does not address the pattern of expense recognition.

### **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, if the Committee decides to proceed with the interpretation.