

3 August 2012

By email: commentletters@hkiipa.org.hk & post

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Dear Selene

IFRS Interpretations Committee Exposure Draft – Levies Charged by Public Authorities on Entities that Operate in a Specific Market

We refer to your letter dated 21 June 2012 inviting our comments on the IFRS Interpretations Committee's (IFRIC) Exposure Draft – Levies Charged by Public Authorities on Entities that Operate in a Specific Market issued in May 2012.

We welcome the proposed guidance which clarifies that the obligating event that gives rise to the liability to pay a levy is the activity that triggers the payment of the levy as identified by the legislation. Our comments in response to the specific questions raised are provided below:

Question 1 – Scope

We understand the IFRIC was asked to consider how an entity would account for the payment of levies, other than income taxes, in its financial statements. In our view, this should have included guidance on both the recognition and measurement of levies. The proposed guidance does not address in adequate detail the measurement of the liability, specifically in interim financial statements, and we believe the scope of the guidance should be expanded to include the same. Similarly, the guidance should also include levies that are due only if a minimum revenue threshold is achieved since such instances may occur frequently. Difficulty in arriving at a consensus view as acknowledged in BC 7 should not be a reason for narrowing of the scope of the draft interpretation. We believe this only serves to provide further evidence of the need for guidance in this area.

In a number of situations, levies are based on revenues and profits reported for an entire period, at times when these reach a certain threshold, or may be based on the financial position at a point in time. Paragraph 10 of the draft interpretation

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requires progressive recognition of a levy if the obligating event occurs over a period of time (since it assumes that the higher the level of activity, the higher the levy which will be incurred). This guidance does not help in the situation where the levy is based on a financial position at a point in time or if it is based on results which could vary over a period of time (for example, gains and losses from an activity).

Complexity in measurement increases when the levy has to be accounted for in interim period financial statements since recognition of the levy based on an interim financial position could cause volatility where the liability to the levy does not increase progressively.

Finally, paragraph 5 of the draft interpretation only covers levies calculated based on data for the current period or a previous reporting period. We would suggest also including in the scope of the interpretation levies calculated with a fixed amount.

Guidance to increase consistency of measurement amongst preparers of financial statements would be, in our view, very useful.

Question 2 – Consensus

We agree with the consensus in the draft interpretation that economic compulsion should not be considered a constructive obligation which would override the requirement to have a present legal obligation – thus, recognition should not be earlier than when the obligation exists. Similarly, we agree that use of the going concern basis to operate in the future does not trigger the obligating event.

Question 3 – Transition

We agree with the proposed transition requirements.

Other – illustrative examples

In example 3, the end of the annual reporting period of Entity C is 31 December 20x1. Before 31 December 20x1, Entity C has no present obligation to pay a levy. We believe the wording in last paragraph of example 3 could be rephrased as follows to avoid misinterpretation: “in the interim financial report, because the liability is triggered in full only on 31 December 20x1, the expense is recognised in full on the last day of the last interim period of 20x1, viz. 31 December 20x1”.



We hope you would find our comments useful. Should you have any questions, please do not hesitate to contact us.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Ronie Mak', written in a cursive style.

Ronie Mak
Secretary