Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/FRSC

Sent electronically through the IASB website (www.ifrs.org)

5 September 2012

IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

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

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on this Exposure Draft. Our responses to the questions raised in your Invitation to Comment are set out in the Appendix for your consideration.

We support the IFRS Interpretations Committee in providing guidance on the accounting for levies in financial statements, to address diverse practices in how entities account for the obligation to pay such a levy. We agree with the consensus in the draft interpretation, which is consistent with the principles in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. However, we consider that the scope of the draft interpretation should be clarified and the accounting for levies due only if a minimum revenue threshold is achieved should also be addressed.

If you have any questions regarding the matters raised in our submission, please contact Winnie Chan, our Manager of Standard Setting at winniechan@hkicpa.org.hk.

Yours faithfully,

Simon Riley
Director, Standard Setting

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Encl.

Hong Kong Institute of CPAs

Comments on the IFRS Interpretations Committee Exposure Draft of *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*

<u>Question 1 – Scope</u>

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 understand the draft interpretation addresses the accounting for levies that are recognized in accordance with the definition of a liability provided in IAS 37. However, the scope of the draft interpretation is restricted. We are concerned that diversity of practice may continue to exist, or may even increase, in situations that are exempt from scope of the draft interpretation. In particular our concerns are as follows:

Paragraph 4(b): Levies that are due only if a minimum revenue threshold is achieved

According to paragraph 4(b), the draft interpretation does not address the accounting for levies due only if a minimum revenue threshold is achieved. We note from the Basis of Conclusions paragraph BC7 that the Interpretations Committee did not address such situation because the Interpretations Committee did not reach a consensus about whether the obligating event arises after the minimum revenue threshold is passes; or as the entity makes progress towards the revenue threshold. We do not agree that difficulty in arriving at a consensus view should be a reason for narrowing of the scope of the draft interpretation. We do not see a conceptual reason why the rationale in paragraph BC8 of the draft interpretation would not also apply to levies due only if a minimum revenue threshold is achieved: that is, the generation of revenue prior to reaching the threshold is necessary, but not sufficient to create the obligation. We believe that the Interpretations Committee should explain why this would not apply in the case of levies that are due only if a minimum revenue threshold is achieved.

In addition, it is not clear whether levies that rely on a minimum threshold other than revenue (e.g. assets, liabilities, cost incurred or production level) are in scope. We believe that the current wording of the draft interpretation is rule-based and might create diversity in practice for levies that might otherwise be similar in nature.

Paragraph 5(e): Calculation basis of the levy

Paragraph 5(e) states that levies are within the scope of the draft interpretation if they are calculated based on data for the current period or a previous period. It appears that fixed-fee levies (i.e. which are not based on data for the current period or previous period) are outside the scope of the draft interpretation. We suggest amending the paragraph to clarify that fixed-fee levies are within the scope of the draft interpretation.

Paragraph 11: The liability to pay a levy that is within the scope gives rise to an expense

According to paragraph 11 only liabilities that give rise to an expense are within the scope of this draft interpretation. It is not clear why levies that give rise to assets are excluded from the scope. There are some circumstances where the obligation to pay levies could result in the recognition of an intangible asset (e.g. a right to operate in a certain market). We believe that the Interpretations Committee should explain the reason for such difference in the draft interpretation.

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 draft interpretation which is consistent with the principles in IAS 37. We agree that economic compulsion should not be considered a constructive obligation. No provision should be recognized for levies that relate to the future conduct of the business. In addition, we also agree that the going concern principle does not imply that an entity has a present obligation to continue operating in future and therefore does not lead to the recognition of a liability at a reporting date for levies that arise from operating in a future period.

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.

Other – illustrative example

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, i.e. 31 December 20x1".

~ End ~