



EFRAG Short Discussion Series: Levies.
Comment Letters
European Financial Reporting Advisory Group
35 Square de Meeûs
Brussels B-1000
Belgium

Dear Madam/Sir,

In the present letter ICAC gives its view on EFRAG's Short discussion series "*Levies: What would have to be changed in IFRS for a different accounting outcome*".

First of all, ICAC welcomes this initiative and consider that this document provides guidance and material for debate.

ICAC is not concerned that the application of IFRIC 21 may sometimes result in inappropriate accounting outcomes. We are of the opinion that IFRIC 21 meets properly the principles and criteria set in the current Conceptual Framework for Financial Reporting.

Notwithstanding, we believe that other alternatives may be analysed in order to obtain a different outcome and respond to concerns raised by some European constituents.

This matter relies heavily on the definition of a liability in IAS 37 and its two significant components: "present obligation" and "past event". A liability only can be recognised if there is a present obligation of the entity arising from past events. As it is said in paragraph 16 of IAS 37, there are some rare cases in which may be disputed either whether certain events have occurred or whether those events result in a present obligation. In such a case, an entity determines whether a present obligation exists at the end of the reporting period by taking account of all available evidence. Once it has been made the decision that there is not a present obligation is not possible to recognise a liability, although the probability of an outflow is very high.

In examples 1, 2, and 3 in IFRIC 21 the liability is recognised, according to the definition of an asset in IAS 37, when all the past events or the conditions that trigger the payment have occurred. Therefore, a different recognition would need a different definition of a liability.

The definition proposed by EFRAG in paragraphs 42-55 is an alternative and matches the purpose followed by some constituents. However we would like to point out two



issues: first, as it is said in paragraph 57, any change to the definition and recognition criteria in the Conceptual Framework would apply to all liabilities and, second, this proposed definition seems to recover the principle of prudence in the recognition of expenses.

Regarding the identification of assets or services received in exchange for levies, ICAC believes that the recognition of an asset or a service will depend on the specific application of the standards to every single case. However, it does not seem easy that the possible asset in exchange for a levy meets the definition of an asset according to the current Conceptual Framework and, specially, the requirements set in IAS 38 for the recognition of an intangible asset.

In any case, ICAC believes that the proper accounting for a liability to pay a levy and for the cost that arise from recognising such a liability requires a deep knowledge of the nature and structure of different levies. Therefore, we will welcome an IASB's project focusing on all transactions with government authorities in their capacity as authorities in order to provide a robust solution.

Finally, ICAC is of the opinion that the inclusion of a specific requirement in IAS 34 as a short term solution is not feasible and supports the requirement, set in IFRIC 21, to apply the same recognition principles in the annual and interim financial statements.

Please, don't hesitate to contact us if you would like to clarify any point of this letter.

Yours sincerely,

Ana Martínez-Pina
Chairman of ICAC