

## Accounting Standards Board of Japan (ASBJ)

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5 September, 2012

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

Dear Sir or Madame,

### **Comment on the Draft IFRIC Interpretation DI/2012/1**

#### **Levies Charged by Public Authorities on Entities that Operate in a Specific Market**

We appreciate the IFRS Interpretations Committee (the Interpretations Committee) 's continued efforts on the development of interpretations and welcome the opportunity to express our comment on the Draft IFRIC Interpretation DI/2012/1 *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*.

#### 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?

1. We believe that the Interpretation Committee should further clarify the key term 'levy', first of all. While paragraph 4 of the draft interpretation scopes out several types of levies, the scope of the interpretation is unclear because the scope of levies itself is not clear. Various levies of different natures are imposed through legislation of different jurisdictions. We anticipate that it would be often difficult to determine whether a particular levy falls within the proposed scope. Even though paragraph 5 of the draft interpretation lists the characteristics of levies within its scope, we are concerned that those characteristics would not be sufficient for readers to appropriately determine whether a particular levy falls within the scope of the interpretation. Therefore, we suggest that the term 'levy' should be more clearly described in a way that would enable readers to appropriately determine whether various levies imposed by legislation in their jurisdictions are levies for the purpose of this interpretation. We also believe that a clearer description of the term 'levy' would

eliminate the need for some of the exclusions listed in paragraph 4 (i.e. fines, contracts between a public authority and a private entity) and reduce the risk of unnecessarily misleading readers. Clarification of this term is needed also from consideration of translation into languages other than English. Without further clarification, the translations of this term into different languages may become different from the intent of the draft interpretation.

2. If the Interpretation Committee would decide to retain the structure of the proposed scope unlike our suggestion above, we recommend that the wording be revised to state the Interpretation Committee's intent clearly. While paragraph BC5 of the draft interpretation indicates that its scope covers the majority of levies, the proposed wording of the interpretation (such as 'specific market' and 'specific activity' in paragraph 5) leaves the impression that the scope is relatively narrow as also implied by the title of 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?

3. We disagree with the proposed requirement of paragraph 11. Although paragraph 11 states that “the liability to pay a levy that is within the scope of this draft Interpretation gives rise to an expense”, we consider that recognizing an expense in full would not always be appropriate and in some cases recognition of an asset corresponding to the liability would be appropriate. Examples of the assets to be recognized corresponding to the liability include prepaid expenses for proper periodic allocation of the expense and costs to be included in the cost of inventories (if a levy is charged on manufacturing equipment, there could be a case that the levy would be included in the cost of inventories in accordance with IAS 2 *Inventories*). The proposed requirement would result in unreasonably prohibiting recognition of such assets. The final interpretation should specify that the debit account of the entry recognizing the liability should be determined according to the nature of the levy in accordance with existing standards other than IAS 37 *Provisions, Contingent liabilities and Contingent assets*.
4. In addition, as paragraph 2 of the draft interpretation states, the request that the Interpretation Committee has received was to provide guidance on the timing of the recognition of liabilities to pay levies and, more specifically, the definition of a present obligation under IAS37. Therefore, the final interpretation should address only the recognition of a liability to pay the levy in accordance with the definition of a liability provided in IAS37 and we do not believe there is a need for interpretation

about the debit account corresponding to the liability.

We hope our comments will contribute to the forthcoming deliberations in the Interpretation Committee.

Sincerely yours,

A handwritten signature in black ink, consisting of several overlapping, horizontal strokes that form a cursive, somewhat abstract shape.

Atsushi Kato

Vice Chairman of the Accounting Standards Board of Japan