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4 September 2012

International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom
Email: CommentLetters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON THE DRAFT IFRIC INTERPRETATION — *LEVIES CHARGED BY PUBLIC AUTHORITIES ON ENTITIES THAT OPERATE IN A SPECIFIC MARKET*

In response to your request for comments on the exposure draft on the Draft IFRIC Interpretation — *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*, attached is the comment letter prepared by the Accounting Practices Committee (APC) of The South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of the APC, which comprises members from reporting organisations, regulators, auditors, IFRS specialists and academics.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Sue Ludolph
Project Director – Financial Reporting

cc: Paul O'Flaherty (Chairman of the Accounting Practices Committee)

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SAICA SUBMISSION ON EXPOSURE DRAFT ON THE DRAFT INTERPRETATION - *LEVIES CHARGED BY PUBLIC AUTHORITIES ON ENTITIES THAT OPERATE IN A SPECIFIC MARKET*

GENERAL COMMENTS

The majority of our constituents are of the view that IAS 37 – *Provisions, Contingent Assets and Contingent Liabilities*, is clear. However, acknowledging that there is diversity in practice in the application of IAS 37, we recommend that the matter should be dealt with in the annual improvements project as an amendment to IAS 37, as the guidance in the draft Interpretation could also be useful to a myriad of transactions. A minority of our constituents were in favour of issuing the IFRIC. We also note specific concerns that we recommend that the IFRS Interpretations Committee consider should a final Interpretation be issued. Our responses to the specific questions are set out below.

SPECIFIC COMMENTS

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?

In paragraph 4(a) of the draft Interpretation, it is stated that the draft Interpretation does not address income taxes within the scope of IAS 12 – *Income Taxes,* yet the draft Interpretation seems to introduce a definition of income taxes (taxes based on taxable profit (ie a net amount of revenues and expenses)) that is different from the text contained within IAS 12. Therefore our suggestion is that the following changes be made to paragraph 4(a): *"The draft Interpretation does not address the accounting for income taxes that are within the scope of IAS 12 Income Taxes, ~~ie taxes based on a taxable profit (ie a net amount of revenues and expenses)~~. (words struck through have been deleted).*

We have a concern with the motivation provided by the IFRS Interpretations Committee to exclude "*levies that are due only if a minimum revenue threshold is achieved*" as noted in BC7 of the basis for conclusions. The BC, states that the IFRS Interpretations Committee decision not to address this issue was made on the basis that it had not reached consensus. In such a situation, we recommend that the IFRS Interpretations Committee conduct further investigation to identify the fundamental issue/s leading to the split in the views amongst the IFRS Interpretations Committee members or that this issue be referred to the IASB in attempt to resolve the issue prior to publishing any draft Interpretation. We do not believe that the reasons above warrant an exclusion from the scope of the draft interpretation. The situation of minimum revenue thresholds is no different in principle to Example 3. Until the minimum threshold is reached, there is no obligating event.

The proposed scope of the draft Interpretation seems, from our understanding, to be very broad and not directed to a specific set of facts or circumstances as has been the case with other Interpretations previously issued by the IFRS Interpretations

Committee. The scope of the draft Interpretation also appears to include the issues addressed in IFRIC 6 – *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment,* as this scope exclusion has not been clearly stated. We would recommend that the scope should be clarified in this respect.

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?

In assessing whether an entity has an obligating event, that entity is required to determine whether it has no **realistic alternative** to settling the obligation created by the event (paragraph 17 of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*). The draft Interpretation refers to **economic compulsion** to continue to operate in the future. In our view, the Interpretation should not introduce a new concept that is not in IAS 37. In addition, the draft Interpretation is not clear on whether an obligating event arose at a point in time or arose over a period of time.

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?

Yes, we agree with the proposed transition requirements.

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