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

MEMBERS' HANDBOOK

Update No. 130

(Issued 19 June 2013)

This Update relates to the issuance of:

- *Recoverable Amount Disclosures for Non-Financial Assets* (Amendments to HKAS 36 *Impairment of Assets*)
- HK(IFRIC) – Int 21 *Levies*

Document Reference and Title	***Instructions***	***Explanations***
VOLUME II		
Contents of Volume II	Discard existing pages i - iii and replace with revised pages i - iii.	Revised contents pages
HONG KONG ACCOUNTING STANDARDS (HKAS)		
HKAS 36 *Impairment of Assets*	Replace the cover page, pages 4 and 50 with revised cover page, pages 4 and 50. Insert page 50A after page 50	- Note 1 - 4
HKAS 36 *Impairment of Assets* (Basis for Conclusions)	Replace the cover page and page 4 with revised cover and page 4. Insert pages 72-75 after page 71	- Note 1 - 4
HONG KONG (IFRIC) INTERPRETATIONS (HK(IFRIC)-Int)		
HK(IFRIC) Interpretation 21 *Levies*	Insert these pages after HK(IFRIC) – Int 20 *Stripping Costs in the Production Phase of a Surface Mine*	- Note 5 - 7

Notes:

1. When HKFRS 13 *Fair Value Measurement* was issued, a consequential amendment had been made to HKAS 36 *Impairment of Assets* which required the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

2. However, the unintended result of those amendments were that an entity would instead be required to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with definite useful lives.

3. Consequently, this amendment aligns the disclosure requirements in HKAS 36 with the original intention. Moreover, additional information is required about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.

4. The amendments to HKAS 36 are effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted. An entity shall not apply those amendments in periods (including comparative periods) in which it does not also apply HKFRS 13.

5. HK(IFRIC) – Int 21 *Levies* addresses how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. The principal question raised was about when the entity should recognise a liability to pay a levy.

6. This Interpretation is an interpretation of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* HKAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). HK(IFRIC) – Int 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

7. HK(IFRIC) - Int 21 is effective for annual periods beginning on or after 1 January 2014 with earlier application permitted.

Hong Kong Institute of
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Revised ~~July 2012~~June 2013

Hong Kong Accounting Standard 36

Impairment of Assets

Hong Kong Institute of
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Appendix D

Amendments ~~resulting from other HKFRSs~~to HKAS 36 – Recoverable Amount Disclosures for Non-Financial Assets

The following sets out amendments required for this Standard resulting from other newly issued pronouncements that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Standard and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

Paragraphs 130 and 134 and the heading above paragraph 138 are amended and paragraph 140J is added. New text is underlined and deleted text is struck through.

Disclosure

…

130 An entity shall disclose the following for an individual asset (including goodwill) or a cash-generating unit, for which an ~~each material~~ impairment loss has been recognised or reversed during the period ~~for an individual asset, including goodwill, or a cash-generating unit~~:

(a) ...

(e) the recoverable amount of the asset (cash-generating unit) and whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs of disposal or its value in use.

(f) if the recoverable amount is fair value less costs of disposal, ~~the basis used to measure fair value less costs of disposal (such as whether fair value was measured by reference to a quoted price in an active market for an identical asset). An entity is not required to provide the disclosures required by HKFRS 13.~~ the entity shall disclose the following information:

(i) the level of the fair value hierarchy (see HKFRS 13) within which the fair value measurement of the asset (cash-generating unit) is categorised in its entirety (without taking into account whether the 'costs of disposal' are observable);

(ii) for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) used to measure fair value less costs of disposal. If there has been a change in valuation technique, the entity shall disclose that change and the reason(s) for making it; and

(iii) for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the asset's (cash-generating unit's) recoverable amount is most sensitive. The entity shall also disclose the discount rate(s) used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique.

(g) …

…

Estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives

134 An entity shall disclose the information required by (a)–(f) for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives:

(a) ...

(c) **~~the recoverable amount of the unit (or group of units) and~~ the basis on which the unit's (group of units') recoverable amount has been determined (ie value in use or fair value less costs of disposal).**

(d) **…**

…

Transitional~~al~~ provisions and effective date

138 ...

140J In June 2013 paragraphs 130 and 134 and the heading above paragraph 138 were amended. An entity shall apply those amendments retrospectively for annual periods beginning on or after 1 January 2014. Earlier application is permitted. An entity shall not apply those amendments in periods (including comparative periods) in which it does not also apply HKFRS 13.

HKAS 36 BC
Revised ~~March 2010~~June 2013

Basis for Conclusions on
Hong Kong Accounting Standard 36

Impairment of Assets

Hong Kong Institute of
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Amendments to the Basis for Conclusions on IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets

Amendments to the Basis for Conclusions on IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets

After paragraph BC209D a heading and paragraphs BC209E–BC209Q are added.

Recoverable Amount Disclosures for Non-Financial Assets

BC209E As a consequence of issuing IFRS 13, the IASB amended some of the disclosure requirements in IAS 36 for the recoverable amount of impaired assets. As described in paragraphs BC209B–BC209D, those amendments resulted from the IASB's decision to require the disclosure of the recoverable amount of impaired assets and additional disclosures about the measurement of the recoverable amount of impaired assets when the recoverable amount was based on fair value less costs of disposal. The IASB also intended to retain a balance between the disclosures about fair value less costs of disposal and the disclosures about value in use.

BC209F After issuing IFRS 13, the IASB was made aware that one of the amendments that that Standard had made to IAS 36 resulted in the disclosure requirements being more broadly applicable than the IASB had intended. Instead of requiring the disclosure of the recoverable amount for impaired assets, that amendment required the disclosure of the recoverable amount of each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant when compared to an entity's total carrying amount of goodwill or intangible assets with indefinite useful lives.

BC209G Consequently, the IASB decided to publish, in January 2013, the Exposure Draft ED/2013/1 *Recoverable Amount Disclosures for Non-Financial Assets* ('Exposure Draft ED/2013/1'), which proposed to amend paragraphs 130 and 134 of IAS 36 to make clear its intention about the scope of the disclosure requirements. For the same reason, the IASB also proposed to amend paragraph 130(f) to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal, consistently with the disclosure requirements for impaired assets in US GAAP. As mentioned in paragraph BC209C, although IFRS and US GAAP have different impairment models, the IASB had concluded that requiring that additional information about impaired assets measured at fair value less costs of disposal would improve comparability between the disclosures presented in the financial statements of entities applying IFRS and the disclosures presented in the financial statements of those applying US GAAP.

BC209H One of the consequential amendments made by IFRS 13 amended paragraph 134(e) of IAS 36 that relates to fair value less costs of disposal for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with an entity’s total carrying amount of goodwill or intangible assets with indefinite useful lives. That amendment required the disclosure of the level of the fair value hierarchy in which the measurement is categorised, and whether (and if so why) there has been a change in the valuation technique used to measure fair value less costs of disposal for such cash-generating units. In developing Exposure Draft ED/2013/1, the IASB did not consider it necessary to amend those disclosure requirements because they were consistent with its intention of aligning the disclosures about fair value less costs of disposal in IAS 36 with the fair value disclosures in IFRS 13. Consequently, the IASB decided to retain the disclosure requirements in paragraph 134(e) and to add, as mentioned in paragraph BC209G, requirements for similar disclosures in paragraph 130(f).

BC209I When developing Exposure Draft ED/2013/1, the IASB considered whether there should be consistency between the wording of the disclosure requirements in IAS 36 (which uses the term 'assumptions') with the wording of the measurement requirements in IFRS 13 (which uses the term 'inputs'). The IASB concluded that it was unlikely that those terms could have different meanings because IFRS 13 defines 'inputs' as "the assumptions that market participants would use when pricing the asset or liability…". In addition, the IASB wanted to make clear that the proposed amendments did not change the meaning of the information that is required to be disclosed in accordance with IAS 36. On the basis of that analysis and given that the use of the term 'assumptions' was not questioned by the respondents to Exposure Draft ED/2013/1, the IASB decided to retain that term in the final amendments.

BC209J When developing Exposure Draft ED/2013/1, the IASB also noted that its proposed amendments overlapped with an amendment to paragraph 130(f) of IAS 36 that had been proposed in the Exposure Draft ED/2012/1 *Annual Improvements to IFRSs 2010–2012 Cycle* ('Exposure Draft ED/2012/1') published in May 2012. The intention behind the proposal in Exposure Draft ED/2012/1 was to harmonise the disclosure requirements for fair value less costs of disposal and value in use by adding to paragraph 130(f) the requirement to disclose the discount rates that were used in the current and previous measurements if the recoverable amount of impaired assets, determined on the basis of fair value less costs of disposal, was measured using a present value technique. A total of 64 respondents commented on that proposal, with nearly all of those respondents supporting it. Consequently, the IASB decided to incorporate that proposal into Exposure Draft ED/2013/1, but did not request comments in response to this topic.

BC209K A total of 74 respondents commented on Exposure Draft ED/2013/1. Even though the vast majority of the respondents supported the proposed amendments, a few respondents believed that, when impairment losses were calculated by reference to the recoverable amount determined on the basis of fair value less costs of disposal, the amendments would result in the disclosure requirements being broader than the disclosures that would be required if the same impairment losses were calculated by reference to the recoverable amount determined on the basis of value in use. The IASB noted that it had already taken the decision to require this incremental disclosure when it first amended IAS 36 as a result of issuing IFRS 13. As mentioned in paragraph BC209G, that decision had been taken on the grounds that those amendments would improve comparability between the disclosures presented in the financial statements of entities applying IFRS and the disclosures presented in the financial statements of those applying US GAAP.

BC209L During the development of IFRS 13, the IASB also noted that not all of the additional disclosure requirements for the recoverable amount determined on the basis of fair value less costs of disposal would be applicable for the recoverable amount determined on the basis of value in use. The requirement of disclosing the level of the fair value hierarchy within which the fair value measurement of the impaired asset is categorised would, for example, not be applicable to a measurement based on value in use. In addition, the IASB noted that the amendments to paragraph 130(f) would help to align the disclosure requirements for fair value less costs of disposal for impaired assets with the disclosure requirements in paragraph 134(e) for fair value less costs of disposal for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with an entity's total carrying amount of goodwill or intangible assets with indefinite useful lives.

BC209M Exposure Draft ED/2013/1 also proposed to remove the term 'material' from paragraph 130. When developing these proposals, the IASB concluded that it was unnecessary to state explicitly that the disclosure requirements in paragraph 130 relate to assets (including goodwill) or cash-generating units, for which a material impairment loss has been recognised or reversed during the period, because all IFRSs are governed by the concept of materiality as described in IAS 1 *Presentation of Financial Statements* (see paragraph 31 of IAS 1) and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Some respondents to Exposure Draft ED/2013/1 were opposed to removing this term because they thought that, by removing it, it would become unclear whether the disclosure requirements in paragraph 130 apply only when a material impairment loss has been recognised or reversed during the period. They were also concerned that the elimination of the term 'material' in paragraph 130 could impact the understanding of the requirements in paragraph 131 that deal with the disclosure of immaterial items on an aggregate basis.

BC209N The IASB had not intended to change the scope of the disclosure requirements in paragraph 130. In addition, the IASB concluded that the removal of the term 'material' in paragraph 130 should not impact the disclosure requirements in paragraph 131. Consequently, the IASB concluded that the rationale for removing the term 'material', as presented in Exposure Draft ED/2013/1, was still valid and, as a result, the IASB confirmed the removal of that term in the final amendments.

BC209O The IASB decided not to retain in the final amendments the last sentence of paragraph 130(f), as proposed in Exposure Draft ED/2013/1. That sentence stated that an "… entity is not required to provide the disclosures required by IFRS 13". The IASB noted that IFRS 13 already excludes from the scope of its disclosure requirements assets for which the recoverable amount is fair value less costs of disposal in accordance with IAS 36. As a result, the IASB concluded that that sentence in paragraph 130(f) was redundant and could cause confusion and therefore decided to remove it from the final amendments.

BC209P Exposure Draft ED/2013/1 proposed to include an illustrative example of the requirements in paragraph 130(b) and the proposed requirements in paragraph 130(f)(ii). Some respondents questioned the usefulness of that illustrative example, which did not illustrate all of the disclosures that are required for the recoverable amount of impaired assets based on fair value less costs of disposal. In their view, such an illustrative example could be misleading rather than helpful, because it might suggest that no other disclosures are required. On the basis of these comments, and because the IASB noted that Illustrative Example 15 to IFRS 13 includes similar disclosures to the ones included in the proposed illustrative example, it decided not to incorporate the proposed example in the final amendments.

BC209Q On the basis of the respondents' comments, the IASB decided to proceed with the final amendments subject to only minor drafting modifications.

After paragraph BC228A a heading and paragraphs BC228B–BC228C are added.

Transition provisions for *Recoverable Amount Disclosures for Non-Financial Assets*

BC228B In Exposure Draft ED/2013/1, the IASB proposed retrospective application and to permit earlier application of the amendments. The vast majority of the respondents supported those proposals.

BC228C The IASB decided to retain in the final amendments the transition requirements proposed in Exposure Draft ED/2013/1 that meant that entities should not provide comparative information for the prior period if they are not also applying IFRS 13 in that period. The objective of such transition requirements is to make these amendments have the same effect as if they had been issued when the IASB issued IFRS 13.

HK(IFRIC)-Int 21
Issued June 2013

Effective for annual periods
beginning on or after 1 January 2014

HK (IFRIC) Interpretation 21

Levies

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- HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- HK(IFRIC) - Int 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*

Background

1 A government may impose a levy on an entity. Requests have been received for guidance on the accounting for levies in the financial statements of the entity that is paying the levy. The question relates to when to recognise a liability to pay a levy that is accounted for in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Scope

2 This Interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of HKAS 37. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain.

3 This Interpretation does not address the accounting for the costs that arise from recognising a liability to pay a levy. Entities should apply other Standards to decide whether the recognition of a liability to pay a levy gives rise to an asset or an expense.

4 For the purposes of this Interpretation, a levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (ie laws and/or regulations), other than:

(a) those outflows of resources that are within the scope of other Standards (such as income taxes that are within the scope of HKAS 12 *Income Taxes*); and

(b) fines or other penalties that are imposed for breaches of the legislation.

'Government' refers to government, government agencies and similar bodies whether local, national or international.

5 A payment made by an entity for the acquisition of an asset, or for the rendering of services under a contractual agreement with a government, does not meet the definition of a levy.

6 An entity is not required to apply this Interpretation to liabilities that arise from emissions trading schemes.

Issues

7 To clarify the accounting for a liability to pay a levy, this Interpretation addresses the following issues:

(a) what is the obligating event that gives rise to the recognition of a liability to pay a levy?

(b) does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?

(c) does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?

(d) does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?

(e) what is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

(f) are the principles for recognising in the annual financial statements and in the interim financial report a liability to pay a levy the same?

Conclusions

8 The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. For example, if the activity that triggers the payment of the levy is the generation of revenue in the current period and the calculation of that levy is based on the revenue that was generated in a previous period, the obligating event for that levy is the generation of revenue in the current period. The generation of revenue in the previous period is necessary, but not sufficient, to create a present obligation.

9 An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

10 The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

11 The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (ie if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time). For example, if the obligating event is the generation of revenue over a period of time, the corresponding liability is recognised as the entity generates that revenue.

12 If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in paragraphs 8–14 of this Interpretation (in particular, paragraphs 8 and 11). For example, if the obligating event is the reaching of a minimum activity threshold (such as a minimum amount of revenue or sales generated or outputs produced), the corresponding liability is recognised when that minimum activity threshold is reached.

13 An entity shall apply the same recognition principles in the interim financial report that it applies in the annual financial statements. As a result, in the interim financial report, a liability to pay a levy:

(a) shall not be recognised if there is no present obligation to pay the levy at the end of the interim reporting period; and

(b) shall be recognised if a present obligation to pay the levy exists at the end of the interim reporting period.

14 An entity shall recognise an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

Appendix A

Effective date and transition

This appendix is an integral part of the Interpretation and has the same authority as the other parts of the Interpretation.

A1 An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2014. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact.

A2 Changes in accounting policies resulting from the initial application of this Interpretation shall be accounted for retrospectively in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

IFRIC Interpretation 21
Illustrative examples

These examples accompany, but are not part of, IFRIC 21.

IE1 The objective of these examples is to illustrate how an entity should account for a liability to pay a levy in its annual financial statements and in its interim financial report.

Example 1—A levy is triggered progressively as the entity generates revenue

Entity A has an annual reporting period that ends on 31 December. In accordance with legislation, a levy is triggered progressively as an entity generates revenue in 20X1. The amount of the levy is calculated by reference to revenue generated by the entity in 20X1.

In this example, the liability is recognised progressively during 20X1 as Entity A generates revenue, because the obligating event, as identified by the legislation, is the generation of revenue during 20X1. At any point in 20X1, Entity A has a present obligation to pay a levy on revenue generated to date. Entity A has no present obligation to pay a levy that will arise from generating revenue in the future.

In the interim financial report (if any), the liability is recognised progressively as Entity A generates revenue. Entity A has a present obligation to pay the levy on revenue generated from 1 January 20X1 to the end of the interim period.

Example 2—A levy is triggered in full as soon as the entity generates revenue

Entity B has an annual reporting period that ends on 31 December. In accordance with legislation, a levy is triggered in full as soon as an entity generates revenue in 20X1. The amount of the levy is calculated by reference to revenue generated by the entity in 20X0. Entity B generated revenue in 20X0 and in 20X1 starts to generate revenue on 3 January 20X1.

In this example, the liability is recognised in full on 3 January 20X1 because the obligating event, as identified by the legislation, is the first generation of revenue in 20X1. The generation of revenue in 20X0 is necessary, but not sufficient, to create a present obligation to pay a levy. Before 3 January 20X1, Entity B has no present obligation to pay a levy. In other words, the activity that triggers the payment of the levy, as identified by the legislation, is the point at which Entity B first generates revenue in 20X1. The generation of revenue in 20X0 is not the activity that triggers the payment of the levy and the recognition of the liability. The amount of revenue generated in 20X0 only affects the measurement of the liability.

In the interim financial report (if any), the liability is recognised in full in the first interim period of 20X1 because the liability is recognised in full on 3 January 20X1.

Example 3—A levy is triggered in full if the entity operates as a bank at a specified date

Entity C is a bank and has an annual reporting period that ends on 31 December. In accordance with legislation, a levy is triggered in full only if an entity operates as a bank at the end of the annual reporting period. The amount of the levy is calculated by reference to the amounts in the statement of financial position of the entity at the end of the annual reporting period. The end of the annual reporting period of Entity C is 31 December 20X1.

In this example, the liability is recognised on 31 December 20X1 because the obligating event, as identified by the legislation, is Entity C operating as a bank at the end of the annual reporting period. Before that point, Entity C has no present obligation to pay a levy, even if it is economically compelled to continue to operate as a bank in the future. In other words, the activity that triggers the payment of the levy, as identified by the legislation, is the entity operating as a bank at the end of the annual reporting period, which does not occur until 31 December 20X1. The conclusion would not change even if the amount of the liability is based on the length of the reporting period, because the obligating event is the entity operating as a bank at the end of the annual reporting period.

In the interim financial report (if any), the liability is recognised in full in the interim period in which 31 December 20X1 falls because the liability is recognised in full on that date.

Example 4—A levy is triggered if the entity generates revenue above a minimum amount of revenue

Entity D has an annual reporting period that ends on 31 December. In accordance with legislation, a levy is triggered if an entity generates revenue above CU50 million in 20X1.[(a)] The amount of the levy is calculated by reference to revenue generated above CU50 million, with the levy rate at 0 per cent for the first CU50 million revenue generated (below the threshold) and 2 per cent above CU50 million revenue. Entity D's revenue reaches the revenue threshold of CU50 million on 17 July 20X1.

In this example, the liability is recognised between 17 July 20X1 and 31 December 20X1 as Entity D generates revenue above the threshold because the obligating event, as identified by the legislation, is the activity undertaken after the threshold is reached (ie the generation of revenue after the threshold is reached). The amount of the liability is based on the revenue generated to date that exceeds the threshold of CU50 million revenue.

In the interim financial report (if any), the liability is recognised between 17 July 20X1 and 31 December 20X1 as Entity D generates revenue above the threshold.

Variation:

Same fact pattern as above (ie a levy is triggered if Entity D generates revenue above CU50 million in 20X1), except that the amount of the levy is calculated by reference to all revenue generated by Entity D in 20X1 (ie including the first CU50 million revenue generated in 20X1).

In this example, the liability for the payment of the levy related to the first CU50 million revenue is recognised on 17 July 20X1 when the threshold is met, because the obligating event, as identified by the legislation, for the payment of that amount is the reaching of the threshold. The liability for the payment of the levy related to revenue generated above the threshold is recognised between 17 July 20X1 and 31 December 20X1 as the entity generates revenue above the threshold, because the obligating event, as identified by the legislation, is the activity undertaken after the threshold is reached (ie the generation of revenue after the threshold is reached). The amount of the liability is based on the revenue generated to date, including the first CU50 million revenue. The same recognition principles apply in the interim financial report (if any) as in the annual financial statements.

(a) In this Interpretation, currency amounts are denominated in 'currency units' (CU).

Basis for Conclusions on IFRIC Interpretation 21 *Levies*

This Basis for Conclusions accompanies, but is not part of, IFRIC 21.

HK(IFRIC)-Int 21 is based on IFRIC Interpretation 21 *Levies*. In approving HK(IFRIC)-Int 21, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the IFRS Interpretations Committee's Basis for Conclusions on IFRIC Interpretation 21. Accordingly, there are no significant differences between HK(IFRIC)-Int 21 and IFRIC Interpretation 21. The IFRS Interpretations Committee's Basis for Conclusions is reproduced below. The paragraph numbers of IFRIC Interpretation 21 referred to below generally correspond with those in HK(IFRIC)-Int 21.

Introduction

BC1 This Basis for Conclusions summarises the considerations of the IFRS Interpretations Committee (the Interpretations Committee) in reaching its consensus. The Interpretations Committee received a request to clarify whether, under certain circumstances, IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* should be applied by analogy to identify the obligating event that gives rise to the recognition of a liability for other levies imposed by governments on entities. The question relates to when to recognise a liability to pay a levy that is accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

BC2 In particular, the request was for the Interpretations Committee to clarify how an entity should account for levies when the calculation for the levies is based on financial data that relates to a period before the period that contains the activity that triggers the payment of the levy. This is the case if, for example, the activity that triggers the payment of the levy, as identified by the legislation, occurs in 20X1 and the calculation of the levy is based on financial data for 20X0 (see Illustrative Example 2).

BC3 The Interpretations Committee was informed that there was diversity in practice in how entities account for the obligation to pay such a levy.

Scope

BC4 One of the questions that was submitted was how to account for levies whose calculation basis uses data such as the gross amount of revenue, assets or liabilities. The Interpretations Committee noted that those levies do not meet the definition of income taxes provided in IAS 12 *Income Taxes* because they are not based on taxable profit. In two Agenda Decisions (published in March 2006 and May 2009), the Interpretations Committee (then called the IFRIC) noted that the term 'taxable profit' implies a notion of a net rather than a gross amount. In those Agenda Decisions, the Interpretations Committee also observed that any taxes that are not within the scope of other Standards (such as IAS 12) are within the scope of IAS 37. The Interpretations Committee further observed that IAS 37 contains a definition of a liability and that a provision is defined in IAS 37 as a liability of uncertain timing or amount. The Interpretations Committee noted that the same recognition requirements should apply to provisions to pay a levy and to liabilities to pay a levy whose timing and amount is certain. Consequently, this Interpretation also addresses the accounting for a liability to pay a levy whose timing and amount is certain.

BC5 The Interpretations Committee noted that IAS 37 does not apply to executory contracts unless they are onerous, so the Interpretations Committee decided that this Interpretation should therefore not apply to executory contracts unless they are onerous.

BC6 The Interpretations Committee decided that, for the purposes of this Interpretation, a levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (ie laws and/or regulations), other than those outflows of resources that are within the scope of other Standards (such as income taxes that are within the scope of IAS 12). Amounts that are collected by entities on behalf of governments (such as value added taxes) and remitted to governments are not outflows of resources embodying economic benefits for the entities that collect and remit those amounts. The Interpretations Committee decided to use the definition of the term 'government' provided in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and IAS 24 *Related Party Disclosures*.

BC7 The Interpretations Committee noted that a payment made by an entity for the acquisition of an asset, or for the rendering of services under a contractual agreement with a government, does not meet the definition of a levy. For the purposes of this Interpretation, levies are imposed by governments and therefore do not arise from contractual agreements. Similarly, the Interpretations Committee noted that this Interpretation does not apply to the accounting for trade discounts and volume rebates agreed between a seller and a purchaser under a contractual agreement.

BC8 The Interpretations Committee decided that this Interpretation should not address the accounting for fines and other penalties. Fines and penalties are paid as a consequence of the breach of laws and/or regulations, whereas levies are paid as a consequence of complying with laws and/or regulations.

BC9 The Interpretations Committee decided that an entity should not be required to apply this Interpretation to liabilities that arise from emissions trading schemes. The IASB decided in 2011 to add a project on this topic to its research agenda. The Interpretations Committee thinks that it would be better to address the accounting for liabilities that arise from emissions trading schemes in a comprehensive project on all recognition and measurement issues related to emissions trading schemes.

BC10 The Interpretations Committee decided not to withdraw IFRIC 6 because it provides useful information on the accounting for liabilities within its scope. The Interpretations Committee noted that the consensus in IFRIC 6 is consistent with the consensus in this Interpretation, and concluded that a scope exclusion for liabilities for waste management within the scope of IFRIC 6 is not necessary.

BC11 The Interpretations Committee decided that this Interpretation should provide guidance on applying IAS 37 to a liability to pay a levy and should not address the accounting for the costs arising from recognising the liability to pay a levy. The Interpretations Committee observed that other Standards would determine whether the recognition of a liability to pay a levy gives rise to an asset or an expense.

What is the obligating event that gives rise to the recognition of a liability to pay a levy?

BC12 According to the definition in paragraph 10 of IAS 37, an obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling the obligation. According to paragraph 14(a) of IAS 37, a provision should be recognised only when an entity has a present obligation as a result of a past event. The Interpretations Committee noted that the main consequence of these requirements is that there can be only one single obligating event. The Interpretations Committee acknowledged that, in some circumstances, an obligating event can occur only if other events have occurred previously. For example, for some levies, the entity paying the levy must have undertaken an activity both in the previous and in the current periods in order to be obliged to pay the levy. The Interpretations Committee noted that the activity undertaken in the previous period is necessary, but not sufficient, to create a present obligation.

BC13 Consequently, the Interpretations Committee concluded that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. In other words, the liability to pay a levy is recognised when the activity that triggers the payment of the levy occurs, as identified by the legislation. For example, if the activity that triggers the payment of the levy is the generation of revenue in 20X1 and the calculation of that levy is based on the revenue generated in 20X0, the obligating event for that levy is the generation of revenue in 20X1 (see Illustrative Example 2). The date on which the levy is paid does not affect the timing of recognition of the liability to pay a levy, because the obligating event is the activity that triggers the payment of the levy (and not the payment of the levy itself).

BC14 The Interpretations Committee noted that some respondents to the draft Interpretation think that the result of the proposed accounting does not provide a fair representation of the economic effects of recurring levies when the liability is recognised at a point in time and gives rise to an expense, although these respondents acknowledged that the proposed accounting in the draft Interpretation is a technically correct interpretation of the requirements in IAS 37. Those respondents think that the substance of a recurring levy is that it is an expense associated with a specific period (and not an expense triggered on a specific date). The Interpretations Committee concluded that this Interpretation is needed to address the diversity in practice and that it provides consistent information about an entity's obligations to pay levies. The Interpretations Committee also observed that this Interpretation does not address the accounting for the costs arising from recognising a liability to pay a levy and that other Standards would determine whether the recognition of the liability to pay a levy gives rise to an asset or an expense. Some respondents to the draft Interpretation asked the Interpretations Committee to consider the effect of economic compulsion to continue to operate in a future period and of going concern assumption on the accounting for levies. The Interpretations Committee's conclusions are set out below.

Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?

BC15 The Interpretations Committee considered an argument that, if it would be necessary for an entity to take unrealistic action in order to avoid an obligation to pay a levy that would otherwise be triggered by operating in the future, then a constructive obligation to pay the levy exists and a liability should be recognised. For example, if the activity that triggers the payment of the levy occurs in 20X1 and the calculation of the levy is based on financial data for 20X0 (as in Illustrative Example 2), some argue that a liability should be recognised in 20X0. Supporters of this argument point to the definition of a constructive obligation in paragraph 10 of IAS 37 and conclude that an entity might have no realistic alternative other than to continue to operate in the next period (ie 20X1). For example, they note that an entity may operate in a regulated market and may not be able to stop operating without a long period of run-off.

BC16 The Interpretations Committee rejected this argument, noting that if this rationale were applied, many types of future expenditure within the scope of IAS 37 would be recognised as liabilities. Indeed, in many cases, entities have no realistic alternative but to pay expenditures to be incurred in the future. The Interpretations Committee noted that, in accordance with paragraphs 18–19 of IAS 37:

(a) no provision is recognised for costs that need to be incurred to operate in the future; and

(b) it is only those obligations arising from past events existing independently of an entity's future conduct of its business that are recognised as provisions.

BC17 As a result, the Interpretations Committee concluded that, when an entity is economically compelled to incur operating costs that relate to the future conduct of the business, that compulsion does not create a constructive obligation and thus does not lead to the entity recognising a liability. This point is illustrated in the examples accompanying IAS 37.

BC18 The Interpretations Committee noted that a levy is triggered as a result of undertaking an activity in a specified period, as identified by the legislation. As a result, the Interpretations Committee concluded that there is no constructive obligation to pay a levy that relates to the future conduct of the business, even if:

(a) it is economically unrealistic for the entity to avoid the levy if it has the intention of continuing in business;

(b) there is a legal requirement to incur the levy if the entity does continue in business;

(c) it would be necessary for an entity to take unrealistic action to avoid paying the levy, such as to sell, or stop operating, property, plant and equipment;

(d) the entity made a statement of intent (and has the ability) to operate in the future period(s); or

(e) the entity has a legal, regulatory or contractual requirement to operate in the future period(s).

BC19 Consequently, the Interpretations Committee concluded that an entity does not have a constructive obligation at a reporting date to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?

BC20 The Interpretations Committee noted that this issue is related to the basis of preparation of financial statements. Some question whether the going concern assumption affects the timing of the recognition of the liability to pay a levy.

BC21 The Interpretations Committee observed that IAS 1 *Presentation of Financial Statements* sets out general features for the financial statements, including the accrual basis of accounting and the going concern assumption. The Interpretations Committee noted that, when an entity prepares financial statements on a going concern basis, it shall also comply with all the recognition and measurement requirements of IFRS. Consequently, the Interpretations Committee concluded that the going concern assumption cannot lead to the recognition of a liability that does not meet the definitions and recognition criteria set out in IAS 37.

BC22 Specifically, the Interpretations Committee concluded that the preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. Paragraphs 18–19 of IAS 37 specify that no provision is recognised in that case.

Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?

BC23 The Interpretations Committee observed that most of the liabilities in IAS 37 and in the Illustrative Examples accompanying IAS 37 are recognised at a point in time, that is, when the obligating event occurs. Nevertheless, they noted that, in one example accompanying IAS 37, the liability is recognised progressively over time.

BC24 In Illustrative Example 3 accompanying IAS 37, an entity operates an offshore oilfield and is required to restore the seabed because of damage caused by the extraction of oil. According to this example, the restoration costs that arise through the extraction of oil are recognised as a liability when the oil is extracted. The Interpretations Committee noted that in this example, the damage is directly caused by the extraction of oil, and that more damage occurs when more oil is extracted. Thus, the outcome is that the liability for damage caused over time is recognised progressively over time as the entity extracts oil and causes damage to the environment.

BC25 The Interpretations Committee discussed whether this outcome is linked to a recognition issue or to a measurement issue and concluded that this is a recognition issue, because the obligating event (ie the damage caused by the extraction of oil) occurs progressively over a period of time. In accordance with paragraph 19 of IAS 37, the Interpretations Committee noted that a present obligation exists only to the extent of the damage caused to date to the environment, because the entity has no present obligation to rectify the damage that will result from the extraction of oil in the future (ie the future conduct of its business).

BC26 Consequently, the Interpretations Committee concluded that the liability to pay a levy is recognised progressively if the obligating event (ie the activity that triggers the payment of the levy, as identified by the legislation) occurs over a period of time. For example, if the obligating event is the generation of revenue over a period of time, the corresponding liability is recognised as the entity generates that revenue (see Illustrative Example 1).

What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

BC27 The draft Interpretation did not address the accounting for levies that are triggered if a minimum revenue threshold is reached. However, many respondents to the draft Interpretation emphasised the importance of providing guidance on this issue. The Interpretations Committee agreed with the respondents' comments and concluded that this Interpretation should provide guidance on the accounting for levies with minimum thresholds. The Interpretations Committee decided that the accounting for the liability to pay such levies should be consistent with the principles established in paragraphs 8 and 11 of this Interpretation.

BC28 For example, if a levy is triggered when a minimum activity threshold is reached (such as a minimum amount of revenue or sales generated or outputs produced), the obligating event is the reaching of that activity threshold. If a levy is triggered as the entity undertakes an activity above a minimum level of activity (such as revenue or sales generated or outputs produced in excess of the minimum amount specified in the legislation), the obligating event is the activity that is undertaken after the threshold is reached (see Illustrative Example 4). If a levy is triggered if an entity operates on a specified date, as identified by the legislation, provided that a minimum threshold is reached in a previous period (such as a minimum amount of revenue, a minimum number of employees, or a minimum amount of assets and liabilities), the obligating event is the entity operating on the specified date as identified by the legislation

after having reached the threshold in the previous period. In that case, the reaching of the threshold in the previous period is necessary, but not sufficient, to create a present obligation.

Are the principles for recognising a liability to pay a levy in the annual financial statements and in the interim financial report the same?

BC29 IAS 34 *Interim Financial Reporting* (paragraph 29) states that the same recognition principles should be applied in the annual financial statements and in the interim financial report. By applying the requirements of IAS 34 (paragraphs 31–32 and 39, as illustrated by paragraphs B2, B4 and B11 of the Illustrative Examples accompanying IAS 34), no liability would be recognised at the end of an interim reporting period if the obligating event has not yet occurred. For example, an entity does not have an obligation at the end of an interim reporting period if the present obligation arises only at the end of the annual reporting period. Similarly, if a present obligation to pay a levy exists at the end of an interim reporting period, the liability should be recognised.

BC30 The Interpretations Committee observed that paragraph 16A of IAS 34 requires the disclosure of explanatory comments about the nature and amount of items affecting liabilities that are unusual because of their nature, size or incidence and about the events after the interim period that have not been reflected in the financial statements for the interim period. If necessary, an entity would therefore provide disclosures about levies that are recognised in the interim financial report or that will be recognised in future interim financial reports.