

# Rådet *för* **finansiell rapportering**

The Swedish Financial Reporting Board

RFR-rs 2012:07

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

Dear Sirs,

## **Re: DI/2012/1 Levies Charged by Public Authorities on Entities that Operate in a Specific Market**

This is the Swedish Financial Reporting Board's response to your invitation to comment on the Draft Interpretation (DI) regarding Levies Charged by Public Authorities on Entities that Operate in a Specific Market. We disagree with the draft interpretation, and believe that:

- The scope is much wider than what the title suggests and is much wider than the question raised to the Committee. The interpretation will in practice apply to all taxes that are not within the scope of IAS 12 or IAS 19. Furthermore, the DI will apply to all non-exchange transactions. We believe that such a wide scope should not be handled within the Committee, instead it should be handled as an IASB project.
- The actual outcome is not reasonable in some circumstances in the interim reporting, because most levies are annual fees, regardless of the structure of the obligation to pay. We ask the Committee to highlight this to the IASB.

### **Scope**

We believe that the scope of the DI is much broader than the title suggests as demonstrated in BC5 and paragraph 5 (b). To avoid divergence in practice, the scope should be made clearer. Furthermore, as we understand the DI, it will apply not only to liabilities within IAS 37, but to liabilities that are within the scope of either IAS 37 or the Conceptual Framework. That also needs to be clarified.

Paragraph 5(c) of the DI states that only levies that are non-exchange transactions are within the scope. Further, it specifies that levies that result in the recognition of some kind of right (e.g. a right to operate in a certain market) are outside the scope. For us, it is very unclear if different kinds of levies that indirectly create value should be in the scope of the interpretation.



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Two examples in Sweden of this are fees to the stability fund (fund that covers losses if a bank goes into bankruptcy) and fees to the Swedish depository scheme. Both these result in an indirect government support which may have a positive effect on the funding costs for those being protected.

Paragraph 5(e) of the DI states that only levies calculated based on data for the current or a previous period is within the scope. We believe this to be overly restrictive. We believe that it needs to be clarified that also fixed-fee levies should be within the scope of the DI.

Furthermore, we believe that the reasoning's supporting the conclusions made in the DI are very far reaching and that the attempt to narrowing the scope to levies charged by public authorities on entities that operate in specific markets is artificial. The reasoning's in the DI will in practice apply to all taxes that are not within the scope of IAS 12 or IAS 19. Furthermore the arguments used in the DI will apply to all non-exchange transactions. We believe that such a far reaching argumentation should not be handled within the Committee; instead it should be handled as an IASB project.

## **Potentially unreasonable outcome in the interim reporting**

The substance of many levies is an annual charge similar to annual licenses or fees, which are best reflected in the financial statements by an even pattern of expense recognition over the period covered by the levy. The accounting proposed by the draft interpretation will, in some cases, result in an uneven pattern of expense recognition. This will not provide useful information to the users of financial statements. E.g. if a levy is only charged if the entity is in business at year end, interim reporting will not present any accrued cost, and in opposite cases, i.e. when an entity needs to pay the full levy in the beginning of the year regardless, if the entity continues its business the next 12 months or not, the interim reports will have a larger cost recognized than what is reasonable, especially in those cases in which the entity may be able to charge a customer for the levy by a contractual arrangement (e.g. property taxes are often transferred to the lessee by contractual arrangements).

Furthermore, since annual fees, regardless of how the law may be formally structured normally covers a 12 month period, make it unreasonable not to accrue the levy during the same period. We believe that the conclusions are even more illogical in cases in which a levy may be a formal obligation to pay in arrears with a delay of several years. We believe that the Accrual based accounting principle in IAS 1 complemented with 4.6 in the Framework that focuses on substance rather than legal form should be considered when reaching conclusions.

We believe that the IFRS Interpretation Committee should highlight the above mentioned effects to the IASB since there are several examples today in which a standard requires an allocation mechanism in those cases. The most obvious example that seems to be very similar in all fact and circumstances is effective tax rate (paragraph 30 (c) in IAS 34).



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If you have any questions concerning our comments please address our Executive member Claes Janzon by e-mail to: [claes.janzon@radetforfinansiellrapportering.se](mailto:claes.janzon@radetforfinansiellrapportering.se)

Stockholm, 7 September 2012

Yours sincerely



Anders Ullberg  
Chairman