



Association pour la participation des
entreprises françaises à l'harmonisation
comptable internationale



EFRAG
35 Square de Meeûs
B-1000 Bruxelles

Paris, 4 July 2013

Dear Ms Flores,

Endorsement of IFRIC Interpretation 21 Levies

We are writing in connection with the TEG's deliberations on whether to recommend the IFRIC Interpretation 21 Levies (IFRIC 21) for use within the European Union. It is not our normal practice to participate in the endorsement process but we have chosen to make our views known in this instance as our members are concerned about the consequences of this Interpretation.

We do not agree that it is appropriate to endorse IFRIC 21 for use in the European Union. Our reasons for this view are briefly explained below:

- We note that the IASB itself is not fully comfortable with this Interpretation. At its meeting in February 2012 it directed the IFRS Interpretations Committee (IFRIC) to apply the same rationale to levies with a minimum threshold as required by IAS 34 for contingent lease payments, that is, to recognize them progressively from the beginning of the period if the entity expects to meet the annual threshold. This direction was reiterated at a further meeting in 2012. IFRIC 21 does not follow this approach. In addition, at its meeting in April 2013, at least three members of the IASB expressed their discomfort with the contradiction between what the IASB has decided to consider as possible criteria for the recognition of liabilities in the forthcoming DP on the Conceptual Framework and the approach of IFRIC 21.
- IFRIC 21 imposes an approach which, in specifying the trigger for the recognition of the liability, relies entirely on the legal form of the levy without taking into account the underlying economic substance. In our experience, in general levies are imposed by governments as fund-raising mechanisms and yet the accounting for the liability will follow a completely different principle from that for an income tax. This inconsistency may also give rise to other unexpected consequences and conflicts in other areas of accounting.
- We think that IFRIC 21 will not provide relevant information about performance for users. Indeed, we think that it will result in accounting which will make it harder for users to understand and predict performance and cash flows. As a result of the recognition of the liability on a "one-hit" basis, entities will have to provide clear and extensive explanations of

the nature and operating mechanism of the more significant levies in order to enable the user to allocate the impact of the levies to appropriate accounting periods. It is likely that there will be substantial differences between the levy schemes put in place in different jurisdictions and the IFRIC 21 approach may well lead to the impossibility of comparing entities in different jurisdictions or sectors within a jurisdiction on anything other than an annual basis without the detailed reworking of the individual financial statements by the user.

- Finally, we think IFRIC 21 introduces divergence from the equivalent FASB ASU 2010-27, which requires the deferral and allocation of certain levies over relevant periods. Adoption of IFRIC 21 may place European entities at a disadvantage compared with those subject to US GAAP in similar situations.

We attach a copy of our response to the draft interpretation for your information. Most of the objections raised in this letter have not been resolved by the final Interpretation.

Please do not hesitate to contact us if you require any complementary information.

Yours faithfully,

ACTEO

AFEP

MEDEF

Patrice MARTEAU
Chairman



François SOULMAGNON
Director General



Agnès LEPINAY
Director of economic
and financial affairs

