# ESMA's 19th EXTRACT FROM THE EECS's DATABASE OF ENFORCEMENT

## INTERNATIONAL FINANCIAL REPORTING BULLETIN 2016/08

### Background

The European Securities and Markets Authority (ESMA) has, as a source of information to assist in the appropriate application of International Financial Reporting Standards (IFRSs), developed a confidential database of enforcement decisions taken by EU National Enforcers participating in European Enforcers Co-ordination Sessions (EECS). This forum involves 38 European enforcers from the 28 member states and the two countries in the European Economic Area (EEA) who have responsibilities in the area of supervision and enforcement of financial information. The EECS is a forum in which European enforcers of financial information meet to exchange views and discuss practical experiences of enforcement of IFRS financial information provided by companies which have, or are in the process of having, securities admitted to trading on a regulated market in Europe.

European national enforcers apply their judgement, knowledge and experience to the particular circumstances of the cases that they consider. Relevant factors for each enforcement decision may include consideration of national law, the requirements of which may go beyond the requirements of accounting standards and interpretations. In consequence, when considering the cases that are publicly reported, careful consideration should be given to their individual circumstances. Situations which seem similar may in substance be different, and consistent application of IFRS means consistent with the principles and treatments permitted by IFRS.

ESMA regularly publishes extracts from its database, with the intention of informing market participants about which accounting treatments EU National Enforcers (the Enforcers), may consider as complying with IFRSs and thus contribute to a consistent application of IFRSs in the European Union. The published decisions generally include a description of the accounting treatment or presentation at issue, the decision taken by the Enforcer and a summary of the Enforcer's underlying rationale. However, decisions taken by enforcers do not constitute generally applicable interpretations of IFRS; this remains the role of the IFRS Interpretations Committee.

On 27 July 2016, ESMA published its nineteenth extract from the database. The full report can be found on the ESMA website at the following address:

https://www.esma.europa.eu/press-news/esma-news/esma-publishes-extract-enforcement-decisions-financial-statements

Set out below is a summary of the conclusions reached, which are in the same order as they have been presented in the report.

The previous extracts published by ESMA are summarised in IFRBs 2007/06, 2008/07, 2008/17, 2009/04, 2010/05, 2010/06, 2010/07, 2012/01, 2012/02, 2012/03, 2012/04, 2012/14, 2013/11, 2013/21, 2014/04, 2014/25 and 2015/11.

STATUS
Final

EFFECTIVE DATE
Immediate

ACCOUNTING IMPACT
Additional guidance for the application of IFRSs.

## Transactions and related IFRSs covered by the extracts

1. Inflation-related index derivative embedded in a host lease contract (IAS 39)
2. Classification of a separate vehicle as a joint operation based on 'other facts and circumstances' (IFRS 11)
3. Selection of the appropriate exchange rate when multiple exchange rates are available (IAS 21)
4. Presentation of gains arising from the sale of an intangible asset (IAS 38)
5. Identification of unobservable inputs (IFRS 13)
6. Reverse acquisition of a listed shell company (IFRS 3, IAS 8, IFRS 2)
7. Disclosure of the amounts of significant categories of revenue (IAS 18, IFRS 8)
8. Determination of whether a dealer network acquired in a business combination is an intangible asset with indefinite useful life (IAS 38)
9. Exchange of a business for an interest in a subsidiary and subsequent distribution of the acquired subsidiary to owners (IFRS 3, IFRIC 17)
10. The determination of the maximum economic benefits available from a pension plan and the measurement of the defined benefit asset (IAS 19, IFRIC 14)
11. Measurement of a deferred tax liability relating to biological assets when income tax rates are changing over the assets' useful lives (IAS 12, IAS 41)
12. Accounting for contributions to a deposit guarantee fund in the interim financial report (IFRIC 21).

## Summary of extracts

### *1. Inflation-related index derivative embedded in a host lease contract (IAS 39)*

The issuer entered into several multi-year operating leases of buildings in a Member State of the Eurozone. Rental payments were denominated in Euro.

The contract contained the following specifications:

- During the first 8 years the increase in rents was determined by multiplying the change in the *Harmonized Index of Consumer Prices* (HIPC), a measure of consumer price inflation in the Eurozone, by a factor of 1.85. There was also a floor to the increase of rents for the first three years of 2.5%. The floor expired in 2012.
- From year 9 until the end of the lease term, the increase in rent will be determined by multiplying the HIPC with a factor of 1.5.

The issuer considered that the rent adjustment represented an embedded derivative. However, in the issuer's opinion, it was closely related to the host contract and therefore no separation of the embedded derivative was required.

According to paragraph AG33(f) of IAS 39, an embedded derivative in a host lease contract is closely related to the host contract if the embedded derivative is an inflation-related index, provided that the index related to the inflation in the entity's own economic environment and the lease is not leveraged.

The issuer considered that no guidance is given in IFRS as to whether there is a threshold by which the changes in the rent can exceed the change in the underlying without the lease contract being considered leveraged. Additionally, the issuer believed that paragraph AG33(a) of IAS 39 could be applied by analogy to determine whether there is such a threshold. Paragraph AG33(a) of IAS 39 explains that an embedded derivative, in which the underlying is an interest rate, would be closely related to the host contract unless the embedded derivative's holders' initial rate of return could at least double the holder's initial rate of return on the host contract and could result in a rate of return that is at least twice what the market return would be for a contract with the same terms as the host contract.

Because the multipliers used for the adjustment of the rent would be below 2 the lease contract would not be leveraged.

Regarding the 2.5% floor, the issuer believed that this would be a fixed adjustment to the rent and, as such, non-dependent on the underlying and therefore could be disregarded when assessing whether the lease would be leveraged.

### *The enforcer's decision*

The enforcer disagreed with the issuer's accounting treatment and determined that the embedded derivative had to be separated from the host lease contract.

In the enforcer's view a hybrid instrument has leverage features if the contractual cash flows that are determined by changes in an underlying item are modified in a manner that increases the effect of those changes. The enforcer is of the view that an analogous application of the conclusion from one subparagraph to a different situation addressed by another subparagraph is not appropriate (AG 33(f) vs. AG33(a)) because the facts and circumstances are different in each case.

The enforcer therefore concluded that an embedded derivative in a host lease contract with an inflation-related index as underlying item should always be separated whenever it is leveraged, which generally occurs when there is a multiplier above 1 that has more than an insignificant effect.

### *2. Classification of a separate vehicle as a joint operation based on 'other facts and circumstances' (IFRS 11)*

The issuer and a partner jointly owned a legally separate vehicle. The issuer held a 56% stake and the partner a 44% stake in this arrangement.

Other facts and circumstances in the arrangement were as follows:

- All strategic decisions, the appointment of members to the Management Committee, approval of the budget and validation of any decision relating to the operational activities of the arrangement required unanimous consent of both partners.
- The arrangement had no access to external markets and al its production was exclusively bought by the partners at cost plus a 15% margin.
- The determination of the volume of the arrangement's output was based on an annual budget approved by the partners, who were contractually committed to acquire the output or otherwise to indemnify the other party.
- The arrangement was financed by the parties.

Taking into consideration the facts and circumstances detailed above the issuer concluded that both parties jointly controlled the arrangement and that the arrangement was a joint operation.

#### *The enforcer's decision*

The enforcer agreed with the issuer's assessment that the arrangement was a joint operation.

The enforcer noted that the joint arrangement was structured through a legally separate vehicle and the contractual arrangements did not specify that the parties had rights to the assets and obligations for the liabilities.

Nevertheless and in accordance with paragraph B31 of IFRS 11 *Joint Arrangements* the parties had rights to substantially all the economic benefits of the assets of the arrangement due to the fact that the arrangement had no access to external markets and the whole output was sold to the parties.

In addition, the arrangement was designed in a way that the liabilities incurred by the arrangement were, in substance, satisfied by the cash flows received from the parties through the purchase of the arrangement's entire output. Moreover, the arrangement was financed by the parties. This indicated that the parties had an obligation for the liabilities relating to the arrangement.

In summary, as the parties had rights to substantially all the assets and obligations for substantially all the liabilities of the joint arrangement through 'other facts and circumstances', the arrangement was a joint operation.

### *3. Selection of the appropriate exchange rate when multiple exchange rates are available (IAS 21)*

The issuer operates in more than 30 countries, including Venezuela. As at 31 December 2014 there were three legal exchange rates in Venezuela that could be used for valuation and translation under IAS 21 *The Effects of Changes in Foreign Exchange Rates*:

- CENCOEX;
- SICAD-I; and
- SICAD II.

The Venezuelan currency (VEF) is subject to strict restrictions and is not freely exchangeable.

After several amendments in the currency exchange legislation three official rates of exchange existed in Venezuela as at 30 June 2015:

- SICAD: US$1 = VEF 12.8
- SIMADI: US$1 = VEF 197
- CENCOEX: US$1 = VEF 6.3

The new currency exchange mechanism, known as SIMADI, permitted both individuals and entities to buy and sell foreign currency with fewer restrictions than other mechanisms in Venezuela.

The determination of the appropriate rate of exchange at which to consolidate the issuer's Venezuelan operations had a material impact on the financial statements.

The issuer changed the rate at which it consolidated its Venezuelan operations from the SICAD rate to the SIMADI rate during the first half-year period of 2015. It was argued that the SIMADI rate was the most appropriate rate for accounting and consolidation, as it believed that this was the rate at which it would extract economic benefit.

In its half-yearly report the issuer disclosed the accounting treatment applied in the six-month period in respect of the exchange rate used, the impact of changes to the rates of exchange used compared to the previous full year rates and the rationale and judgement made by management for applying the SIMADI rate during the half-year period.

#### *The enforcer's decision*

The enforcer agreed with the issuer's accounting treatment and disclosures.

Paragraph 26 of IAS 21 states that when several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date.

The enforcer did not disagree with the issuer's assertion as the issuer believes that SIMADI is the rate at which it extracts economic benefit.

### *4. Presentation of gains arising from the sale of an intangible asset (IAS 38)*

The issuer is a biotech company that undertakes research and development projects but does not produce the products itself. It received milestones payments during the research and development process based on contracts signed with other pharmaceutical companies, which, if the projects were completed, would produce and distribute the pharmaceutical products. If the products were approved by the authorities and sold to consumers, the issuer would receive royalties.

In 2011 the issuer acquired a development project as part of a business combination and recognised the project as an intangible asset in accordance with paragraph 33 of IAS 38 *Intangible Assets*. At the beginning of 2012, the issuer judged that it could not complete the project on its own due to insufficient funds and attempted to form partnerships with other companies or to find external investors to be able to continue working on the project. After these initiatives failed, the issuer tried to sell the project, including all rights to future development. In the 2012 half-year report the issuer recognised an impairment loss for the full value of the intangible asset. After the publication of the half-year financial report the issuer succeeded in selling the project.

The gain from the sale was classified as revenue in the 2012 annual financial statements. The issuer argued that their business was medical research and development and that the sale of rights arising from the project should therefore be classified as revenue in accordance with paragraph 7 of IAS 18 *Revenue* since the sale of rights was part of the issuer's ordinary business.

#### *The enforcer's decision*

The enforcer disagreed with the issuer because gains arising from derecognition of an intangible asset cannot be presented as revenue as paragraph 113 of IAS 38 explicitly prohibits this classification.

The rationale for the enforcement decision is the following:

- Two development projects were transferred by the entity before 2001, when the issuer used national GAAP. Additionally, those projects were transferred to entities where the issuer had significant influence and the payments of the purchase price was made in shares. No projects were sold from 2001 to 2012.
- Based on historic transactions there was no indication that the issuer's business model was to sell development projects.
- According to paragraph 3(a) of IAS 38 the scope of the standard does not include intangible assets held by an entity for sale in the ordinary course of business. As the issuer had recognised an intangible asset in accordance with IAS 38, it could not argue that it was held for sale in the ordinary course of business.

### *5. Identification of unobservable inputs (IFRS 13)*

The issuer is a Real Estate Investment Trust that owns approximately 1,500 multi-unit residential rental apartment properties in and near urban centres.

In its 2014 annual financial statements the issuer disclosed that the 'capitalisation rate' and 'stabilised net rental income' were the key unobservable inputs/assumptions. 'Stabilised net rental income' represents the net rental income from a stabilised portfolio, defined as all properties owned continuously during an accounting period.

Regarding the 'stabilised net rental income' the issuer's fair value notes did not disclose the information required by paragraphs 93(d) and (h)(i) of IFRS 13 *Fair Value*:

- a description of the valuation technique and the inputs used in the fair value measurement of the investment property;
- quantitative information about the significant unobservable inputs used in the fair value measurement of investment property; and
- a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change on those inputs to a different amount might result in a significantly higher or lower fair value measurement.

Contradicting the disclosures that it did make, the issuer argued that the disclosures required by paragraph 93 of IFRS 13 were not provided for the 'stabilised net rental income' because it was not a significant unobservable input. In the issuer's view the 'stabilised net rental income' was built up unit-by-unit based on most recent rents knowledge and therefore there would be no single 'input' applied to determine the 'stabilised net rental income'. It was also argued that a variation in the net rental income for an individual unit (even a significant variation) would not have a significant impact on the fair value measurement of the property portfolio.

#### *The enforcer's decision*

The enforcer did not accept the issuer's rationale for considering that the 'stabilised net rental income' was not a significant unobservable input.

The enforcer noted that that the 'stabilised net rental income' is influenced by how the issuer defines it and calculates 'stabilised net rental income' (i.e. all properties owned continuously during an accounting period). It is apparent that this calculation is based on rental income from properties on an aggregate basis rather than at an individual unit level, which was the issuer's argument. As a result, if there are significant variations in the 'stabilised net rental income' for all units within the issuer's property portfolio taken as a whole, then this factor could have an impact on the fair value measurement of the issuer's property portfolio.

### *6. Reverse acquisition of a listed shell company (IFRS 3, IAS 8, IFRS 2)*

A non-listed operating company (Company A) paid cash for 97.5% of the shares of a listed company (Company B). On the same day, Company's B activities, including all its assets and liabilities except for its cash and cash equivalents, were sold to its former shareholders. Company A planned to merge with the empty shell Company B in order to list. The consideration for the shares was significantly higher than the cash remaining in Company B after the sales of its activities. In the subsequent merger Company B paid for Company A's shares by issuing new shares to Company's A owners and therefore became the legal acquirer of Company A. The merged group kept Company B's legal characteristics, including the shares' listing.

The transaction was not in the scope of IFRS 3 *Business Combinations* because at the date of its acquisition Company B was a shell company (not a business). Management concluded that even though IFRS 3 was not applicable, the transaction would be in substance be a reverse acquisition of Company B by Company A. Therefore, Management referred to paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and used judgement to develop an appropriate accounting policy on how to account for the transaction.

As a result, the consolidated financial statements would be issued under Company's B name as the legal acquirer but as a continuation of Company A's financial statements and as such would present Company A's prior year consolidated figures as comparative information.

As the merger was a mere internal restructuring with no accounting impact, the difference between the consideration transferred for Company B's shares and its remaining cash and cash equivalents was considered to be the cost of listing existing shares and therefore charged to the income statement.

#### *The enforcer's decision*

The enforcer accepted the issuer's accounting treatment and concurred with the analysis that the transaction was, in substance, a reverse acquisition:

- the merged company's board members were appointed by Company A's shareholders;
- Company A's management replaced Company B's former management;
- Company A's relative size was significantly greater than Company B's;
- Company A's owners held the majority of the voting rights in the combined entity; and
- Company A paid a premium over the fair value of Company B's shares.

The enforcer concluded that because IFRSs do not provide guidance on how to account for such a transaction, the relevant accounting treatment had to be determined according to paragraphs 10-12 of IAS 8.

Recognising the difference between the consideration paid and the fair value of the cash left in Company B by analogy with IFRS 3 as goodwill would not have been appropriate as no future economic benefits could be expected from Company B, as it was an empty shell company.

### *7. Disclosure of the amounts of significant categories of revenue (IAS 18, IFRS 8)*

The issuer is a company that supplies products for 3D-printing. The description of the accounting policies in the financial statements referred to various components of revenue, such as sale of: machinery, spare parts, disposables and services. Also, the management report contained explanations and amounts for these revenue generating activities. Despite the fact that the issuer generated several categories of revenue, it disaggregated the revenue in the financial statements notes into two components only: 'revenue' and 'freight' (the latter being immaterial).

#### *The enforcer's decision*

The enforcer disagreed with the issuer's accounting treatment. The issuer should have disclosed in its financial statements more granular information regarding its revenue.

Paragraph 35b of IAS 18 *Revenue* requires disclosure of the amount of each significant category of revenue recognised during the period. Additionally, paragraph 32 of IAS IFRS 8 *Operating Segments* requires an entity to report the revenues from external customers for each product or service, or each group of similar products and services. The fact that the issuer described the various accounting policies by category of revenue and in the management report disclosed disaggregated amounts of several revenue generating activities confirmed that more significant revenue components than disclosed existed. Thus, disaggregated information on revenue should have been provided in the financial statements.

### *8. Determination of whether a dealer network acquired in a business combination is an intangible asset with indefinite useful life (IAS 38)*

The issuer, a producer of transport equipment, acquired Entity A in 2008. Its intention was to enter a new geographical market by acquiring a widespread dealer network. The dealers sell the goods to retail customers and provide them with maintenance. The relationships between the acquired entity and the dealers were not based on contracts establishing exclusive relationships but on contracts for ongoing business. The dealer network was identified as a separate intangible asset in the course of the purchase price allocation. The issuer considered that the period over which the dealer network would generate net cash inflows would have no foreseeable limit. In its view, the dealer network was one self-renewing asset rather than separate relationships with the individual dealers.

#### *The enforcer's decision*

The enforcer disagreed with the issuer's accounting treatment. The dealer network did not have an indefinite useful life and the intangible asset should have been amortised since its acquisition.

According to paragraph IE28 of IFRS 3 *Business Combinations* customer relationships meet the contractual-legal criterion if an entity has a practice of establishing contracts with its customers, regardless of whether a contract exists at the acquisition date. The relationships between the dealers and the Entity A were based on ongoing business which in turn was established through contracts. Therefore, the contractual-legal criterion was fulfilled.

However, the contractual-legal criterion was met for each individual relationship with the dealers within the dealer network, not the network itself. The useful life of the relationships with each of the individual dealers was finite because they continuously cease. The fact that dealers with whom the relationship ends could be replaced does not alter this assessment. The acquired asset relates only to those dealers with which Entity A had established relationships at the acquisition date.

### *9. Exchange of a business for an interest in a subsidiary and subsequent distribution of the acquired subsidiary to owners (IFRS 3, IFRIC 17)*

The issuer owned Business E whose net assets amounted to CU 1.3M and had a fair value of CU 30.0M. On 1 July 2014, the issuer contributed Business E to Entity P and in return received 80% of Entity P's shares. Entity P, which met the definition of a business, held net assets with a carrying amount and fair value of CU 7.2M. The transaction was accounted for as a business combination and the issuer was identified as the acquirer. The issuer elected to measure the non-controlling interest in Entity P after the transaction at its fair value (paragraph 19 of IFRS 3 *Business Combinations*).

The issuer recognised the transaction as an increase of the net assets for an amount of CU 7.2M and of non-controlling interests in the same amount. No goodwill or negative goodwill was recognised. It was argued that 80% of Entity P was acquired for consideration of zero.

In August 2014, the issuer was authorised to distribute its interest in Entity P to its own shareholders. The issuer recognised a decrease in its share capital and recognised a liability for the fair value of the interest in Entity P at the authorisation date. The change in the fair value between the authorization date and the time the shares were distributed in November 2014 was recorded as an adjustment to the liability via equity. Profit on the transaction was calculated based on the derecognition of the liability, the non-controlling interest and entity P's net assets. The issuer also reclassified to profit or loss the accumulated remeasurements of a net defined benefit liability of Entity P that were previously recognised in other comprehensive income.

#### *The enforcer's decision*

The enforcer disagreed with the issuer's accounting treatment. The issuer transferred 20% of its interests in Business E to acquire 80% of the original interests in Entity P. Therefore, the issuer's measurement of non-controlling interest, goodwill and the profit upon settlement of the dividend payable was not correct. Additionally, the accumulated remeasurements relating to the net defined benefit liability of Entity P should not have been reclassified to profit or loss upon distribution of entity P.

The consideration transferred should have been calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer. The issuer should have recognised goodwill as goodwill is measured as the excess of the consideration transferred and the amount of non-controlling interests in the acquiree over the fair value of the identifiable net assets acquired:

- Consideration transferred: CU 6.0M (20% of CU 30M)
- Fair value of 80% of the identifiable net assets acquired: CU 7.2M x 80% = CU 5.76M
- Goodwill: CU 0.24M

The change in the issuer's ownership interest in Business E should not have been recognised in profit or loss. Paragraph 38 of IFRS 3 requires that, if an acquirer retains control of the assets and liabilities transferred as part of the consideration, those assets and liabilities are measured at their carrying amounts immediately before the acquisition date. Consequently the 20% non-controlling interest should have been measured at CU 0.26M (20% x CU 1.3M).

Since entity P is not controlled by the same parties before and after the distribution, IFRIC 17 was applicable to the distribution of the shares of P to the shareholders of the issuer. The enforcer therefore agreed with the accounting treatment of the issuer.

The accumulated remeasurements of the net defined benefit liability which were in the past recognised in other comprehensive income should, according to paragraph 122 of IAS 19 *Employee Benefits*, not have been reclassified to profit and loss.

### *10. The determination of the maximum economic benefits available from a pension plan and the measurement of the defined benefit asset (IAS 19, IFRIC 14)*

In one of the issuer's pension plans, the fair value of the plan assets exceeded the present value of the defined benefit obligation by CU 17.8M and the issuer was entitled to receive this surplus upon the pension plan's termination. The pension plan was closed and no additional premiums needed to be paid by the issuer apart from additional solvency payments. The issuer's standard practice was to not realise such a surplus over time but through a buy-out (transfer of the defined benefit obligation and the plan assets to an insurance company in return for a payment). The issuer would be willing to agree to a buy-out if an insurer would offer a payment which corresponds to the issuer's past cumulated solvency payments to the pension plan of CU 2.0M. Therefore, it was concluded that the expected economic benefit available as a refund would be CU 2.0M and that therefore CU 2.0M would represent the asset ceiling and thus measured the net defined benefit asset in this amount.

#### *The enforcer's decision*

The enforcer determined that the issuer measured the defined benefit asset incorrectly. The determination of the asset ceiling should take into account the maximum economic benefit that is available from refunds, reductions in future contributions or a combination of both. The issuer should have measured the net defined benefit asset as the amount of the surplus at the end of the period that the entity has a right to receive as a refund, less associated costs. Additionally, paragraph 9 of IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies that the entity's intended use of the surplus is not relevant when measuring the economic benefits available. Thus, if the expected benefit from realising the surplus over time is higher than from a buy-out, the economic benefit should be measured based on the assumption that the surplus is realised over time even though the issuer intends to opt for the buy-out.

### *11. Measurement of a deferred tax liability relating to biological assets when income tax rates are changing over the assets' useful lives (IAS 12, IAS 41)*

The issuer operates a cacao plantation. After planting the young cacao trees, the first harvests were expected after 18 months and the lifetime of the trees was expected to be 30-35 years. The issuer started planting trees in 2013 and expected the first harvest in October 2015. The trees would reach their maturity at the end of 2018 and afterwards their fair value would decrease after each harvest. Cacao trees were measured on initial recognition and at the end of each reporting period at fair value less costs to sell (paragraph 12 of IAS 41 *Agriculture*). As the tax base of the trees was nil, a taxable temporary difference existed.

The issuer is exempt from all income taxes in the country where the cacao plantation is located over the period 2014-2026. In 2027 the normal tax rate would be reduced by 50% and in 2028 by 25%. Afterwards the normal tax rate of 25% would apply.

The issuer did not recognise a deferred tax liability as it believed that the temporary difference existing at 31 December 2014 would reverse entirely during the tax holiday period. The issuer believed that the temporary difference would be recovered by the harvests in the first four to six years and that the temporary differences that reverse after the end of the tax holiday period would only arise in the future due to the future growth of the trees until they reach maturity.

#### *The enforcer's decision*

The enforcer disagreed with issuer's accounting treatment to not recognise a deferred tax liability due to the following reasons:

- As the entity recovers the carrying amount of the asset, the taxable temporary difference will reverse and the entity will have taxable profit. A deferred tax liability shall be measured at the tax rates that are expected to apply to the periods when the asset is realised. The issuer should have determined which part of the asset is realised during the tax holiday period and which part is realised afterwards.
- It is not appropriate to estimate that the temporary difference as of 31 December 2014 relating to young cacao trees with a lifetime of 30-35 years will be recovered in full during the next four to six years and that the temporary differences that will reverse after the tax holiday period will entirely be generated after 2014. The growth of the young cacao trees that occurred up to 31 December 2014 is the basis for all benefits that will flow to the issuer during the entire lifetime of the trees. Therefore, the period over which the asset is realised is the lifetime of the trees.

### *12. Accounting for contributions to a deposit guarantee fund in the interim financial report (IFRIC 21)*

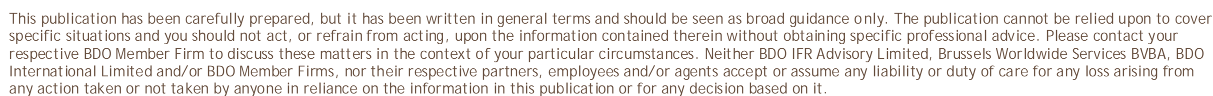
The issuer is a credit institution which is subject to a deposit guarantee scheme. According to the local legislation in force, the credit institutions whose deposits are (partially) guaranteed by a deposit guarantee fund have to make a non-refundable cash contribution of 0.2% of the deposits existing at the end of the year, to the deposit guarantee fund, irrespective of the amount of deposits maintained during the rest of the year.

The issuer's accounting policy was to recognise in each interim period a provision for these contributions proportional to the estimated amount at year end to be paid within the next two months of the following year. As of 30 June 2015 the issuer recognised a provision measured at 50% of the expected total annual levy for the year 2015.

#### *The enforcer's decision*

The enforcer disagreed with the issuer's accounting treatment. No provision should have been recognised for the contributions to the deposit guarantee fund as of 30 June 2015 because the obligating event had not yet occurred.

An entity does not recognise a liability to pay a levy if there is no present obligation to pay the levy at the end of the interim reporting period (paragraph 13 of IFRIC 21 *Levies).* As the contribution to the deposit guarantee funds depends exclusively on the amount of deposits maintained at the end of the year, there is no legal obligation to pay contributions as of 30 June 2015. The obligation to contribute to the deposit guarantee fund only occurs if the issuer holds deposits on 31 December.



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