EFRAG
35 Square de Meeùs
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BELGIUM

Re: EFRAG - Short Discussion on "Levies: What would have to be changed in IFRS for a different accounting outcome?"

Paris, 15 December 2014

Dear Sir / Madam

The EDF Group is an integrated energy utility operating in all areas of the electricity market: energy generation, transmission, distribution and marketing, energy efficiency and management services, supply and energy trading.

The EDF Group thanks the EFRAG for investigating different approaches to address the accounting outcomes that result from IFRIC 21 application: timing of recognition of the liability and its debit side for which IFRIC 21 redirects to other applicable standards.

We are strongly concerned by this issue because the group, particularly in France, is subject to a large range of levies with a point in time trigger event and that are not measured based on revenues or expenses. Under IFRIC 21, the liability related to these levies will be now recognised in full at this point of time. Because of the lack of guidance in IFRIC 21 on the debit side of this liability, the entry will implicitly lead to the immediate recognition of the full amount as an expense, ignoring the characteristics of these levies that relate to a full reporting period and not a only a point of time of the period.

You will find attached the following documents:

- Our answer to the specific questions
- Copy of our request submitted to IFRIC related to the accounting of levies on productive assets for a service provider

Should you require any further comment or explanation, please do not hesitate to contact us.

Yours sincerely,
Isabelle TRIQUERA
Head of Corporate and Group Accounting

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Q 1: Do you have concerns that the application of IFRIC 21 and other relevant Standards may sometimes result in inappropriate outcomes (such as changing immediately to profit or loss the cost of a levy that should be instead recognised over a period)?

EDF group operates over the world many electricity generation power plants and electricity networks. Mainly in France, owing or operating these equipments leads to specific and recurring annual levies. Most of these levies are assessed on the accounting value in the balance sheet of these assets or their technical characteristics, for example the installed capacity in MW of the power plant. So far, these levies were recognised progressively in the balance sheet and the profit and loss account over the reporting their refer to (ie the whole year for these specific levies).

With IFRIC 21, as the triggering event identified by the legislation for these levies is a point of time, often the first of January, the liability will be recognised each year at this point of time for the whole amount due. The cost of the levy is immediately charged in profit and loss because (i) these levies do not meet the definition of an asset or a service (ii) the measurement basis of these levies is a balance sheet figure or a technical characteristic of the asset and not a profit and loss account item that occurs over the period.

Consequently, the application of IFRIC 21 combined with other standards lead to an inappropriate outcome, especially in the interim profit and loss statement, because it does not represent the economic substance of these annual and recurring levies that relate to a full reporting period and not a only a point of time of the period.

Q 2: Based on the existing applicable Standards, do you think that entities will be able in practice to identify assets or services received in exchange for levies?

Q 3: Is the propose guidance in paragraph 62 helpful in this respect? And, should the guidance also include criteria to distinguish if an entity has received an asset rather than a service?

Regarding levies linked to our activities, the answer to the two above questions is no except if the alternative set out in our answer to question 8 was applied.

Most of the levies assess on generation and distribution assets fund the general budget of France or the budget of local authorities. The company does not benefit of any identifiable counterparty from the State or the local authorities when it is subjected to these levies,Consequently, EDF will not be able to identify assets or services received in exchange for such levies.

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Furthermore, IFRIC 21 specifies that a payment made by an entity for the acquisition of an asset, or for rendering of services under a contractual agreement with the government, does not meet the definition of a levy. Consequently, a levy in the scope of IFRIC 21 would be recognised neither by amortisation of an asset nor by progressive accrual.

Q 4: For those levies where the law indicates a point-in-time in obligation, do you agree that there may be other elements in the law to designate the obligation event? If so do you agree with the elements described in paragraphs 65 to 68?

We agree that the point-in-time obligation in the law should not be the only element that could be used to identify when the obligation arises. In France, this approach is already agreed for the levy called "Cotisation Foncière des enterprises" which is due if an entity is in operation at the beginning of the year and measured based on the entity's assets. The levy is proportionally reduced if the entity stops its activity during the year. Based on these features, the Cotisation Foncière des Entreprises is recognised progressively in the accounts.
We agree with the elements described in paragraphs 65 to 68. However, for those levies that are measured based on balance sheet figures or technical characteristics, this approach will not solve the inappropriate outcome of IFRIC 21.

Q5- In which cases, if any, can a levy measured on a balance sheet figure be linked to an activity performed over time?

See below our answer to Q8

Q 6: Do you agree with the inclusion of a specific requirement in IAS 34 as a short term solution?

We share the position that IFRIC 21 is a correct interpretation of the principles in IAS 37. However, as explained above (Q1), the application of IFRIC 21 combined with other standards lead to an inappropriate outcome, especially in the interim profit and loss statement because it does not represent the economic substance of these annual and recurring levies that relate to a full reporting period and not a only a point of time of the period.

For levies based on balance sheet figures or technical characteristics of the assets, a conceptual basis for a progressive recognition of costs is difficult to achieve due to other currently applicable standards. Consequently, we think that the introduction of a specific exception in IAS 34, based on the idea that such a

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levy benefit for the full period and not only the interim period during which the triggering event occurs, is the most relevant approach to avoid undesirable outcomes in the interim accounts.

Q 7: Do you agree that the IASB should add to its agenda a Research project to deal with transactions with Government authorities in their capacity as authorities?

We have not comment on this question

Q 8: Do you think that other different alternatives could be explored in the paper in order to reach a different outcome when accounting for levies?

An alternative approach could be explored for levies raised on production property, plant and equipment. As per IAS 2, these specific levies could be included in cost of inventories as fixed production overheads and recognized progressively in the profit and loss account in the period in which the related revenue is recognized. Indeed, the category of fixed production overheads is supposed to include all indirect costs of production that remain relatively constant regardless of the volume of production such depreciation and maintenance of factory buildings and equipment and the cost of factory management and administration. The fact that a levy on assets is raised at a specified date and independently of the level of production does not lead to the exclusion of this levy from the category of fixed production overheads. This approach should be relevant whether an entity has inventory or not.
We submitted this approach to the IFRS Interpretations Committee in May 2014 (see copy attached) but the Committee decided not to add this issue to its agenda because it would be unlikely that it could reach consensus on how the costs should be recognised in this particular case.

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