Federation of European Accountants
Fédération des Experts comptables Européens

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
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E-mail: commentletters@ifrs.org

16 November 2010

Ref.: ACC/HvD/TS/ID

Dear Sir David,

Re: FEE Comments on IASB Exposure Draft Deferred Tax: Recovery of Underlying Assets – Proposed amendments to IAS 12

(1) FEE (the Federation of European Accountants) is pleased to comment on the IASB Exposure Draft Deferred Tax: Recovery of Underlying Assets – Proposed amendments to IAS 12 (the "ED").

(2) As a founding organisation of EFRAG we have also contributed to the EFRAG consultation process by submitting the FEE comments on EFRAG's Draft Comment Letter of 7 October 2010. EFRAG has issued its final comment letter on 9 November 2010. We have considered the EFRAG Final Comment Letter in our response and make reference to the EFRAG comments where relevant.

(3) We generally agree with the views expressed by EFRAG in its final letter.

(4) Similar to EFRAG, we do not support the proposed exception to the principle as currently set out in paragraph 51 of IAS 12 *Income Taxes.* The proposed exception, coupled with the constraints imposed to overcome the rebuttable presumption, will lead to results that do not reflect the reality of how the assets will be realised. The proposed simplification should not be favoured over relevant and reliable financial reporting.

(5) Similar to EFRAG, we would prefer additional application guidance to increase objectivity of the calculation and to improve consistency, or alternatively, enhanced disclosures of how management has applied its judgment in calculating deferred tax balances.

(6) Should the IASB proceed with its proposal to introduce this exception, in our opinion, it should only be applicable to investment properties that are measured using the fair value model in IAS 40.

Our responses to the questions in the Invitation to comment of the ED are contained in the Appendix to this letter.

For further information on this letter, please contact Tibor Siska, Project Manager, at FEE Secretariat on +32 2 285 40 74 or via email at tibor.siska@fee.be.

Yours sincerely,

Hans van Damme

President

Appendix

Question 1 – Exception to the measurement principle

The Board proposes an exception to the principle in IAS 12 that the measurement of deferred tax liabilities and deferred tax assets should reflect the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities. The proposed exception would apply when specified underlying assets are remeasured or revalued at fair value.

Do you agree that this exception should apply when the specified underlying assets are remeasured or revalued at fair value?

Why or why not?

(7) We acknowledge that there are difficulties in some jurisdictions when applying the current principle set out in paragraph 51 of IAS 12 *Income Taxes*. However, we do not support the proposed exception to this principle.

(8) We do not believe that the difficulties involved are so insurmountable as to justify an exception to the principles. Indeed, we think that companies in these jurisdictions should continue to apply judgment. Even though this may result in more subjective information, the result of application of judgement is more likely to provide predictive information. The proposed simplification should not be favoured over relevant and reliable financial reporting.

(9) Therefore, similar to EFRAG, we would prefer additional application guidance to increase objectivity of the calculation and to improve consistency, or alternatively, enhanced disclosures of how management has applied its judgment in calculating deferred tax balances.

Question 2 – Scope of the exception

The Board identified that the expected manner of recovery of some underlying assets that are remeasured or revalued at fair value may be difficult and subjective to determine when deferred tax liabilities or deferred tax assets arise from:
a) investment property that is measured using the fair value model in IAS 40;
b) property, plant and equipment or intangible assets measured using the revaluation model in IAS 16 or IAS 38;
c) investment property, property plant and equipment or intangible assets initially measured at fair value in a business combination if the entity uses the fair value or revaluation model when subsequently measuring the underlying asset; and
d) other underlying assets or liabilities that are measured at fair value or on a revaluation basis

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The Board proposes that the scope of the exception should include the underlying assets described in (a), (b) and (c), but not those assets or liabilities described in (d).

Do you agree with the underlying assets included within the scope of the proposed exception?

Why or why not? If not, what changes to the scope do you propose and why?

(10) As noted above, we do not agree with the proposed exception. However, should the IASB proceed with its proposal to introduce this exception, in our opinion, it should only apply to investment properties that are measured using the fair value model in IAS 40.

(11) Similar to EFRAG, we acknowledge that determining the manner in which the entity expects to recover the carrying amounts of assets, whether through rentals or sale, is complex and involve significant degree of judgement. Therefore, if the IASB decides to pursue this project, the scope of exception should not be extended beyond temporary differences on investment properties that are measured at fair value.

(12) However, we would like to emphasise that the difficulties arising from the degree of judgement involved in this situation can be remediated by application guidance or alternatively, by enhanced disclosure requirements.

Question 3 – Measurement basis used in the exception

The Board proposes that, when the exception applies, deferred tax liabilities and deferred tax assets should be measured by applying a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely trough sale. This presumption would be rebutted only when an entity has clear evidence that it will consume the asset's economic benefits throughout its economic life.

Do you agree with the rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale when the exception applies?

Why or why not? If not, what measurement basis do you propose and why?

(13) Given that we do not agree with the introduction of the proposed exception, we do not agree either with the rebuttable presumption as it may result in meaningless deferred tax balances being disclosed.

(14) Indeed, we do not believe that the constraint imposed to rebut the presumption of realisation through sale (i.e., the need for clear evidence) is such that it makes it virtually impossible for entities to produce meaningful results.

(15) For example, take an entity that has a clear strategy to use an asset for the next five years and then sell it. Although some of the asset's carrying amount will be recovered by use and some by sale, there may not be significant difficulties in calculating the deferred tax balance. It therefore seems illogical to require the entity to presume that the whole carrying amount will be recovered through sale.

But this appears to be the only option under the proposals, as the presumption can only be rebutted where there is clear evidence that the entity will consume all the asset's economic benefits throughout its life.

Question 4 – Transition

The Board proposes that the amendments should apply retrospectively. This requirement includes retrospective restatement of all deferred tax liabilities or deferred tax assets within the scope of the proposed amendments, including those that were initially recognised in a business combination.

Do you agree with the retrospective application of the proposed amendments to IAS 12 to all deferred tax liabilities or deferred tax assets, including those that were recognized in a business combination?

Why or why not? If not, what transition method do you propose and why?

(16) In our opinion, retrospective application is the preferred method.

(17) However, the retrospective application of the proposed requirements requires clarification with respect to adjustment of deferred taxes recognised as part of the business combinations on assets that are subject to the exception. It would be necessary for the IASB to clarify whether such adjustments should be recognised against goodwill or in profit or loss of the period.

(18) We also note that application of the exemption may result in a reduction of deferred tax liabilities, hence in the need to assess the recoverability of deferred tax assets that were expected to reverse against these deferred tax liabilities. The information necessary to make this assessment may not be available and the application of judgement related the recoverability of assets in past periods may inherently be affected by hindsight. It would be useful for the IASB to provide guidance with respect to such situations.

Question 5 – Other comments

Do you have any other comments on the proposals?

(19) We do not have any other comments at this stage.