Federation of European Accountants
Fédération des Experts comptables Européens

Mr Hans Hoogervorst
IASB Chairman
E-mail: commentletters@ifrs.org

18 December 2014

Ref.: ACC/AKI/HBL/PPA

Dear Mr Hoogervorst,

Re: FEE comments on IASB Exposure Draft: Recognition of Deferred Tax Assets for Unrealised Losses

FEE[1] (the Federation of European Accountants, www.fee.be) is pleased to provide you below with its comments on the IASB Exposure Draft ED/2014/3 on Recognition of Deferred Tax Assets for Unrealised Losses – Proposed amendments to IAS 12 (the ED).

We support the IASB in its efforts to clarify this matter within the scope of *IAS 12 – Income taxes.* The concept of deferred taxes is not well understood by all constituents which has led to divergences in practice when it comes to the practical application of specific requirements.

We agree with the IASB that there is a need to clarify the application of IAS 12 to debt instruments carried at fair value by means of an illustrative example.

We support the proposed amendments of IAS 12 however in our detailed comments we refer to some changes and further clarifications in specific areas.

For further information on this letter, please contact Pantelis Pavlou, Manager, from the FEE Team on +32 (0)2 285 40 74 or via e-mail at pantelis.pavlou@fee.be.

Yours sincerely,

André Kilesse
President

Olivier Boutellis-Taft
Chief Executive

Encl.: Appendix - FEE comments on specific questions

[1] FEE's represents 47 professional institutes of accountants and auditors from 36 European countries, including all 28 European Union (EU) Member States. It has a combined membership of over 800.000 professional accountants, working in different capacities in public practice, small and big accountancy firms, businesses of all sizes, government and education. Adhering to the fundamental values of their profession – integrity, objectivity, independence, professionalism, competence and confidentiality – they contribute to a more efficient, transparent and sustainable European economy.

Question 1 - Existence of a deductible temporary difference

The IASB proposes to confirm that decreases in the carrying amount of a fixed-rate debt instrument for which the principal is paid on maturity give rise to a deductible temporary difference if this debt instrument is measured at fair value and if its tax base remains at cost. This applies irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, ie by holding it to maturity, or whether it is probable that the issuer will pay all the contractual cash flows.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

(1) FEE believes that the clarification is helpful since it will address the diversity in practice on this issue resulting from the current lack of clarity.

(2) Currently, many reporting entities consider that the decrease in the fair value of a fixed rate debt instrument which is measured at fair value (through the profit or loss or through the other comprehensive income (OCI)[2]) results in a deductible temporary difference when the tax base remains at cost. However, others believe that, to the extent that they expect to hold the instrument until maturity and collect all the cash flows, no deferred tax asset should be recognised as they do not expect to benefit from any tax savings.

(3) The proposed illustration demonstrates why a deductible temporary difference exists irrespective of the holder's intention. It also explains the thought process leading to the recognition of deferred tax assets more clearly, with a first step that consists of identifying deductible temporary differences and a second separate step that consists of assessing whether future taxable profits will be sufficient for the deferred tax assets recovery.

Question 2 - Recovering an asset for more than its carrying amount

The IASB proposes to clarify the extent to which an entity's estimate of future taxable profit (paragraph 29) includes amounts from recovering assets for more than their carrying amounts.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

(4) We support the addition of paragraph 29A.

(5) However, we suggest that the second half of the paragraph should be omitted from the final standard. This would avoid the risk of departing from the principle-based standard to prescribing specific rules. In addition, omitting this section would mitigate the risk of misinterpretation of the requirements set our earlier in the paragraph.

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[2] In accordance with IAS39 the classification refers to: "Available for sale" classification category. In accordance with IFRS 9 the classification refers to: "Financial Assets measured at Fair Value through OCI".

(6) We suggest the following drafting changes to paragraph 29A:

> "29A Estimating taxable profit in future periods (see paragraph 29(a)) requires assessing whether and to what extent it is probable that the assets of the entity will be recovered for more than their carrying amount. An entity considers all relevant facts and circumstances when making this assessment. ~~Recovery of an asset for more than its carrying amount is unlikely to be probable if, for example, it was recently impaired. Conversely, recovery of an asset for more than its carrying amount is likely to be probable, if, for example, it is measured at cost and used in a profitable operation.~~"

Question 3 - Probable future taxable profit against which deductible temporary differences are assessed for utilisation

The IASB proposes to clarify that an entity's estimate of future taxable profit (paragraph 29) excludes tax deductions resulting from the reversal of deductible temporary differences.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

(7) We agree that it is necessary to clarify how to determine the estimate of future taxable profits to be used in assessing recoverability of deferred tax assets. As such we agree with the clarification in paragraph 29(i) of the ED.

(8) However we believe that this paragraph could be enhanced by an example illustrating clearly how to determine the taxable profit, and focus simply on the effect of a single asset on taxable profit. We would propose continuing the example used to illustrate paragraph 26(d) and demonstrate the effect of the reversal of the deductible temporary difference on taxable profit under the sale and hold until maturity scenario.

(9) Furthermore, to present a comprehensive example, we believe that paragraph 29(i) should also specify that the entity must also exclude the reversal of taxable temporary differences, as mentioned in paragraph IE34.

Question 4 - Combined versus separate assessment

The IASB proposes to clarify that an entity assesses whether to recognise the tax effect of a deductible temporary difference as a deferred tax asset in combination with other deferred tax assets. If tax law restricts the utilisation of tax losses so that an entity can only deduct tax losses against income of a specified type or specified types (eg if it can deduct capital losses only against capital gains), the entity must still assess a deferred tax asset in combination with other deferred tax assets, but only with deferred tax assets of the appropriate type.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

(10) We agree with the proposed amendments.

(11) In our view, this clarification would mitigate the divergence that exists in practice due to different interpretations of paragraphs 26(d) and 27 of the Standard. The assessment should account for other taxable sources of income and as demonstrated in the Illustrative example (IE1-IE43) the entity should recognise a deferred tax asset to the extent that the temporary deductible differences are available.

(12) FEE suggests that the IASB better clarifies paragraph IE13 and explains the link with the calculation in paragraph IE34, where the example explains how the taxable loss of CU200.000 has been calculated including all the relevant taxable and deductible tax differences.

Question 5 - Transition

The IASB proposes to require limited retrospective application of the proposed amendments for entities already applying IFRS. This is so that restatements of the opening retained earnings or other components of equity of the earliest comparative period presented should be allowed but not be required. Full retrospective application would be required for first-time adopters of IFRS.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

(13) We find the proposed transitional requirements unclear and urge the board to clarify them. We would support the transitional requirements if the ED suggests that any difference arising upon adoption of the amendment at the beginning of the earliest period presented may be recognised in a single component of equity (without a need to allocate between retained earnings and other components of equity).