



COMMITTEE OF EUROPEAN SECURITIES REGULATORS

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RE: EFRAG's draft comment letter on the IASB's Exposure Draft 'Income Tax'

The Committee of European Securities Regulators (CESR) has, through its standing committee on financial reporting (CESR-Fin), considered EFRAG's draft comment letter on the IASB's Exposure Draft (ED) on Income Tax.

We thank you for this opportunity to comment on your draft response to the IASB.

CESR is supportive of the comments EFRAG has made on the ED 'Income Tax' and is pleased to provide you with some additional comments.

Convergence with US GAAP

CESR is, in general, supportive of the efforts of the IASB to achieve greater convergence between IFRS and US GAAP. However, along with EFRAG, CESR thinks that convergence is not an objective in itself and that the overall aim should be to improve in financial reporting.

In particular we are concerned that some of the proposals in the ED on *Income Tax* lack conceptual rationale and note that some of them, such as the "initial recognition" exception, are rather rule than principle based.

Internal consistency of the notion of management expectations

CESR agrees with EFRAG's concern that the ED looks at the notion of management expectations in such a way that it is internally inconsistent with other aspects of the ED, specifically on the rejection of management expectations when determining the tax basis. However, as retaining management's expectations may imply the existence of multiple tax bases for an asset or liability, additional guidance on how to account for the aforementioned would be desirable. An example would be a non-financial asset that has been substantially amortised but can still be disposed of at the end of its useful life for a small residual value. In such cases there are different consequences ("tax basis") depending on whether the asset is sold or continues to be used.

Tax basis and temporary differences for items that are not recognised as assets and liabilities

Having read the ED, there is a particular issue to which CESR would like to draw EFRAG's attention – namely, that of the tax basis and temporary difference for items that are not recognised as assets and liabilities, which have led to an entitlement to tax deductions.



These deductions can in some jurisdictions be reversed (fully or partly) in future periods dependant on a future event. An example might be provisions for possible future claims arising under insurance contracts, as identified in IFRS 4 paragraph 14(a), which can be reversed either recognition in profit or loss, or as a reversal in tax income without any effects on the accounting figures.

Paragraph 16 of the ED states that ‘some items might have a tax basis but are not recognised as assets and liabilities’ and gives an example of research costs that are recognised as an expense when they are incurred, as the result of a past transaction/event, but which may not be deductible in determining taxable profit until a future period. As an example we can consider in this context catastrophic reserves.

In addition we note that paragraphs 1 and 9 of the ED refers only to the recognition of deferred tax as a result of past transactions or events’. The question is then whether tax deduction would qualify as an event which could give rise to deferred tax.

If these items are not scoped out by paragraph 1 or 9 of the proposals we wonder whether the tax basis should take into account future increases in taxable income. According to paragraph 16 of the ED the tax basis is the amount of the future deductions, but the paragraph remains silent on future increases. CESR would appreciate confirmation of this view.

I hope you will find these comments helpful. I would be happy to discuss all or any of these issues further with you.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'F. Restoy', is written over a horizontal line. A long, sweeping flourish extends from the bottom of the signature.

Fernando Restoy

Chair of CESR-Fin