EFRAG's Letter to the European Commission Regarding Endorsement of IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*

Olivier Guersent
Director General, Financial Stability, Financial Services and Capital Markets Union
European Commission
1049 Brussels

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Dear Mr Guersent

Endorsement of IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards, EFRAG is pleased to provide its opinion on the IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* ('IFRIC 23'), which was issued by the IASB on 7 June 2017. An Exposure Draft of the Interpretation was issued on 21 October 2015. EFRAG provided its comment letter on that Exposure Draft on 12 February 2016.

The objective of IFRIC 23 is to provide guidance on accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. IFRIC 23 becomes effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. A description is included in Appendix 1 to this letter.

In order to provide our endorsement advice as you have requested, we have first assessed whether IFRIC 23 would meet the technical criteria for endorsement, in other words whether IFRIC 23 would provide relevant, reliable, comparable and understandable information required to support economic decisions and the assessment of stewardship, leads to prudent accounting and is not contrary to the true and fair view principle. We have then assessed whether IFRIC 23 would be conducive to the European public good. We provide our conclusions below.

As part of the evaluation process, EFRAG issued its initial assessment for public comment and, when finalising its advice and the content of this letter, took the comments received into account. EFRAG's evaluation is based on input from standard setters, market participants and other interested parties, and its discussions of technical matters are open to the public.

Does IFRIC 23 meet the IAS Regulation technical endorsement criteria?

Based on the above reasoning, EFRAG has concluded that IFRIC 23 meets the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship, and leads to prudent accounting. EFRAG has also assessed that IFRIC 23 does not create any issues in its interaction with other IFRS Standards and that all necessary disclosures are required. Therefore, EFRAG has concluded that IFRIC 23 is not contrary to the true and fair view principle. EFRAG's reasoning is explained in Appendix 2 to this letter.

Is IFRIC 23 conducive to the European public good?

EFRAG has assessed that IFRIC 23 would improve financial reporting and would reach an acceptable cost-benefit trade-off. EFRAG has not identified that IFRIC 23 could have any adverse effect on the European economy, including financial stability and economic growth. Accordingly, EFRAG assesses that endorsing IFRIC 23 is conducive to the European public good. EFRAG's reasoning is explained in Appendix 3 to this letter.

Our advice to the European Commission

As explained above, we have concluded that IFRIC 23 meets the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship, leads to prudent accounting, and that it is not contrary to the true and fair view principle. We have also concluded that IFRIC 23 is conducive to the European public good. Therefore, we recommend IFRIC 23 for endorsement.

On behalf of EFRAG, I would be happy to discuss our advice with you, other officials of the European Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,

Jean-Paul Gauzès
President of the EFRAG Board

Appendix 1: Understanding the changes brought about by IFRIC 23

Background to IFRIC 23

1 The IFRS Interpretations Committee ('the Interpretations Committee') was asked when the recognition of a current tax asset is appropriate if tax laws require an entity to make a payment in respect of a disputed income tax treatment. In the particular circumstances of the question, the entity intended to appeal a tax examination which resulted in a payment to a taxation authority.

2 The Interpretations Committee noted that IAS 12 *Income Taxes* provides guidance on the recognition and measurement of tax assets and liabilities, however, IAS 12 does not specify how to reflect uncertainty in income tax treatments when accounting for income taxes.

3 Consequently, diversity in practice was observed when the application of IAS 12 involved uncertainty. Furthermore, similar issues can arise in other circumstances when there is uncertainty over income tax treatments.

The issue and how it has been addressed

4 IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* ('IFRIC 23') is a narrow scope interpretation of IAS 12 and addresses the uncertainty over income tax treatments. When there is uncertainty over income tax treatments, an entity is required to recognise and measure its current and deferred tax asset or liability based on taxable profit (tax loss), tax bases, tax credits or tax rates determined in accordance with the Interpretation. IFRIC 23 applies only to taxes within the scope of IAS 12.

5 IFRIC 23 does not deal with taxes or levies outside the scope of IAS 12. As a result, it does not impact the distinction made between income taxes accounted for under IAS 12 and other types of taxes and levies that are accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Similarly, while IFRIC 23 clarifies that uncertainties relating to income tax payable and receivable are within the scope of IAS 12, it does not resolve any diversity that might exist in relation to the standard that applies to interest and penalties relating to income tax.

What has changed?

6 IFRIC 23 stipulates that an entity shall determine whether to consider each uncertain tax treatment separately, or whether some uncertain tax treatments should be considered together as a group of uncertain tax treatments, depending on which approach provides a better prediction of the resolution of the uncertainty.

7 When determining the approach, an entity might consider how it prepares its income tax filings and supports its tax treatments or how the entity expects the taxation authority to make its examination and resolve issues from that examination.

8 When making the assessment of whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, IFRIC 23 requires an entity to assume that a taxation authority will examine the amounts it has a right to examine and have full knowledge of all related information when making those examinations.

9 IFRIC 23 relies on the 'probable' threshold in IAS 12 in relation to the impact of uncertainty in income tax treatments. An entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates consistently with the tax treatment used or planned to be used in its income tax filings, if it concludes that it is probable that the taxation authority will accept an uncertain tax treatment.

10 If an entity concludes that it is not probable that an uncertain tax treatment will be accepted by the taxation authority, the entity should reflect the effect of uncertainty when determining the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates by applying whichever of the following methods better predicts the resolution of the uncertainty:

(a) the most likely amount – this method may better predict the resolution of the uncertainty if the possible outcomes are binary or are concentrated on one value; or

(b) the expected value – this method may better predict the resolution of the uncertainty if there is a range of possible outcomes that are neither binary nor concentrated on one value.

11 IFRIC 23 requires an entity to make judgements and estimates when predicting the resolution of the uncertain tax treatment. When there is a change in the facts and circumstances on which those judgements and estimates were based, an entity shall reassess those judgements and estimates and consider any new information in the context of the applicable laws.

12 Regarding disclosures, IFRIC 23 does not introduce any new disclosure requirements, but refers to existing disclosure requirements as set out below:

(a) paragraph 122 of IAS 1 *Presentation of Financial Statements* – for judgements made when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;

(b) paragraphs 125-129 of IAS 1 – for information about assumptions and estimates made when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and

(c) paragraph 88 of IAS 12 – for the potential effect of the uncertainty as a tax-related contingency.

When does IFRIC 23 become effective?

13 An entity shall apply IFRIC 23 for annual periods beginning on or after 1 January 2019 with earlier application permitted. If an entity applies IFRIC 23 for an earlier period, it shall disclose that fact.

14 On initial application, an entity shall apply IFRIC 23 either:

(a) retrospectively applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, if that is possible without the use of hindsight; or

(b) retrospectively, with the cumulative effect of initially applying IFRIC 23 recognised in the opening balance of retained earnings, or other appropriate components of equity at the beginning of the annual reporting period in which IFRIC 23 is first applied.

Appendix 2: EFRAG's technical assessment on IFRIC 23 against the endorsement criteria

Introduction

1 In evaluating IFRIC 23, EFRAG asked itself four questions:

(a) Is there an issue that needs to be addressed?

(b) If there is an issue that needs to be addressed, is an Interpretation an appropriate way of addressing it?

(c) Is IFRIC 23 a correct interpretation of existing IFRS Standards?

(d) Does the accounting that results from the application of IFRIC 23 meet the technical criteria for EU endorsement?

Is there an issue that needs to be addressed?

2 EFRAG understands that at present there is diversity in practice as to how entities account for uncertain income tax treatments. EFRAG agrees that this diversity is undesirable and is an issue that needs to be addressed.

Is an Interpretation an appropriate way of addressing it?

3 An Interpretation is not considered to be an appropriate way of addressing diversity in accounting practice if that diversity arises from inconsistencies between IFRS Standards or relates to major issues that should be considered in standards-level projects.

4 EFRAG's assessment is that the diversity in practice that is the subject of IFRIC 23 falls into neither of these categories. As such, EFRAG has concluded that an Interpretation is an appropriate way of addressing the diversity relating to accounting for uncertain income tax treatments.

Is IFRIC 23 a correct interpretation of existing IFRS Standards?

5 EFRAG has considered whether IFRIC 23 is a correct interpretation of existing IFRS literature.

6 IAS 12 *Income Taxes* includes requirements on recognition and measurement of tax assets and liabilities, but does not explicitly state how uncertainty that arises from the operation of applicable tax laws is reflected in the accounting. As a result, diverse reporting methods are applied when the application of income tax law is uncertain.

7 IFRIC 23 applies a 'probable' threshold in assessing whether a position taken in an entity's filings will be accepted. IAS 12 already applies a 'probable' threshold in its requirements on recognition of deferred tax assets.

8 IFRIC 23 clarifies that, in making the necessary assessments, an entity should assume that the tax authority will examine the amounts it has a right to examine and have full knowledge of all related information when making those examinations. EFRAG notes that this is consistent with IAS 12's definition of taxable profit or loss, which is determined based on the rules established by the taxation authorities.

9 For these reasons EFRAG agrees that IFRIC 23 is an appropriate interpretation of existing IFRS Standard.

Does the accounting that results from the application of IFRIC 23 meet the technical criteria for endorsement in the European Union?

10 EFRAG has considered whether IFRIC 23 meets the technical requirements of the European Parliament and of the Council on the application of international accounting standards, as set out in Regulation (EC) No 1606/2002 (the IAS Regulation), in other words that IFRIC 23:

(a) is not contrary to the principle set out in Article 4 (3) of Council Directive 2013/34/EU (The Accounting Directive); and

(b) meets the criteria of understandability, relevance, reliability, and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

11 Article 4(3) of the Accounting Directive provides that:

The annual financial statements shall give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss. Where the application of this Directive would not be sufficient to give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss, such additional information as is necessary to comply with that requirement shall be given in the notes to the financial statements.

12 The IAS Regulation further clarifies that *'to adopt an international accounting standard for application in the Community, it is necessary firstly that it meets the basic requirement of the aforementioned Council Directives, that is to say that its application results in a true and fair view of the financial position and performance of an enterprise - this principle being considered in the light of the said Council Directives without implying a strict conformity with each and every provision of this Directive'* (Recital 9 of the IAS Regulation).

13 EFRAG's assessment as to whether IFRIC 23 would not be contrary to the true and fair view principle has been performed against the European legal background summarised above.

14 In its assessment, EFRAG has considered IFRIC 23 from the perspectives of both usefulness for decision-making and assessing the stewardship of management. EFRAG has concluded that the information resulting from the application of IFRIC 23 is appropriate both for making decisions and assessing the stewardship of management.

15 EFRAG's assessment on whether IFRIC 23 is not contrary to the true and fair view principle set out in Article 4(3) of Council Directive 2013/34/EU is based on the assessment of whether it meets all other technical criteria and whether it leads to prudent accounting. EFRAG's assessment also includes assessing whether IFRIC 23 does not interact negatively with other IFRS Standards and whether all necessary disclosures are required. Detailed assessments are included in this appendix in the following paragraphs:

(a) relevance: paragraphs 16-22;

(b) reliability: paragraphs 23-28;

(c) comparability: paragraphs 29-36;

(d) understandability: paragraphs 37-41;

(e) whether overall it leads to prudent accounting: paragraphs 42-47; and

(f) whether it would not be contrary to the true and fair view principle 48-52.

Relevance

16 Information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations. Information is also relevant when it assists in evaluating the stewardship of management.

17 EFRAG considered whether IFRIC 23 would result in the provision of relevant information – in other words, information that has predictive value, confirmatory value or both – or whether it would result in the omission of relevant information.

18 IFRIC 23 does not change the principles of IAS 12, nor will it result in the provision of any new disclosures. However, it clarifies that an entity assumes the acceptance of a tax position in its accounting for income taxes only if it is probable that the tax authority will accept that uncertain tax treatment. This provides relevant information for users in that the financial statements reflect the probability of the resolution of the uncertainty.

19 Under IFRIC 23, the determination of whether a tax treatment should be considered independently or in combination with other tax treatments is based on the approach that better predicts the resolution of the uncertainty. That is relevant information which results from events that are likely to be considered together by the taxation authority being considered collectively for the purpose of the financial statements and uncertainties that are not related in any way being considered separately.

20 When the entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, IFRIC 23 requires that the accounting for income taxes reflects the range of possible outcomes on either a most likely outcome or a probability-weighted average approach. EFRAG considers that the different methods provided by IFRIC 23 would result in relevant information as the selection of the method depends on which method better predicts the resolution of the uncertainty.

21 EFRAG observes that IFRIC 23 requires judgements and estimates to be updated if the facts and circumstances on which they were based change or new information becomes available. This requirement ensures that the outcome of the uncertain tax position is reassessed by considering all relevant changes and maintaining the relevance of information provided to users.

22 EFRAG's overall assessment is that IFRIC 23 would result in the provision of relevant information and therefore satisfies the relevance criterion.

Reliability

23 EFRAG also considered the reliability of the information that will be provided by applying IFRIC 23. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully what it either purports to represent, or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.

24 There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness.

25 The approach to reflecting the effect of uncertainty when an entity concludes that it is not probable that the taxation authority will accept an uncertain treatment is similar to the requirements in IFRS 15 *Revenue from Contracts with Customers* in estimating the amount of variable consideration in a revenue contract. EFRAG assessed that this approach provided reliable information in its endorsement advice on IFRS 15.

26 In addition, EFRAG considers that IFRIC 23's guidance on how to consider uncertainty when accounting for income tax treatments will improve the faithful representation of current and deferred tax assets and liabilities in the financial statements.

27 Finally, EFRAG observes that the requirements and guidance in IFRIC 23 are consistent with the requirements in IAS 12 and reflect the scope of IAS 12. Accordingly, if a particular type of tax is inside (outside) the scope of IAS 12, then uncertainty relating to that tax is also inside (outside) the scope of IFRIC 23. Therefore, in EFRAG's view, IFRIC 23 does not raise any significant concerns about reliability.

28 EFRAG's overall assessment is that IFRIC 23 would result in the provision of reliable information and therefore satisfies the reliability criterion.

Comparability

29 The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.

30 EFRAG has considered whether IFRIC 23 results in transactions that are:

(a) economically similar being accounted for differently; or

(b) transactions that are economically different being accounted for as if they are similar.

31 IFRIC 23 addresses existing diversity in respect of accounting for income tax in circumstances where there is uncertainty in the application of the tax law. This will bring consistency in accounting for uncertainty over income tax treatments, and therefore will increase comparability between entities.

32 It could be argued that the judgements required by IFRIC 23 in determining whether an entity should consider uncertain tax treatments collectively and the consideration of changes in facts and circumstances could limit comparability. However, EFRAG notes that making judgements is inherent in a principles-based environment and that the level of judgement required is not so exceptional that it would result in information that is not comparable. EFRAG considers that adequate application guidance is included in the Interpretation, which provides the relevant framework to exercise judgement, and illustrates the principles in IFRIC 23.

33 EFRAG observes that there may be some diversity as to whether interest and penalties relating to income taxes are accounted for under IAS 12 or under IAS 37. However, EFRAG notes that any resulting limitations to comparability do not result from the requirements in IFRIC 23 and the application of IFRIC 23 does not further limit any lack of comparability between taxes being accounted under IAS 12 and IAS 37.

34 Regarding the transition requirements, EFRAG has assessed whether IFRIC 23 will result in comparable information in the transition period. Comparability, both between entities and over time for a particular entity, could be limited by providing two methods of transition, i.e. allowing an alternative to full retrospective application in certain circumstances.

35 However, EFRAG considers that the area of uncertain tax treatments is highly judgmental and, in many cases, full retrospective application would not be possible without using hindsight. As a result, EFRAG assesses that the reliability of a second transition method that does not require hindsight will outweigh any loss of comparability.

36 EFRAG's overall assessment is that IFRIC 23 satisfies the comparability criterion.

Understandability

37 The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and

economic activity and accounting, and the willingness to study the information with reasonable diligence.

38 Although there are a number of aspects related to the notion of 'understandability', EFRAG believes that most of the aspects are covered by the discussion above about relevance, reliability and comparability.

39 As a result, EFRAG believes that the main additional issue it needs to consider, in assessing whether the information resulting from the application of IFRIC 23 is understandable, is whether that information will be unduly complex.

40 IFRIC 23 does not change any principles of IAS 12, but rather provides guidance on how to reflect the effect of uncertainty in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. Furthermore, IFRIC 23 does not introduce any new disclosure requirements, but highlights the relevance of the existing disclosure requirements in IAS 1 *Presentation of Financial Statements* and IAS 12. As a result, the understandability of the financial information provided would not change.

41 In EFRAG's view, IFRIC 23 does not introduce any complexity that may impair understandability. Therefore, EFRAG's overall assessment is that IFRIC 23 satisfies the understandability criterion in all material respects.

Prudence

42 For the purpose of this endorsement advice, prudence is defined as caution in conditions of uncertainty. In some circumstances, prudence requires asymmetry in recognition such that assets or income are not overstated and liabilities or expenses are not understated.

43 EFRAG notes that the requirements and guidance in IFRIC 23 are consistent with IAS 12. IFRIC 23 applies the 'probable' threshold to recognise tax assets and liabilities which is in line with the recognition threshold for deferred tax assets under IAS 12.

44 EFRAG observes that there is an explicit assumption in IFRIC 23 that the taxation authority has full knowledge and right to examine all related information when making tax examinations. EFRAG considers that the requirement for entities to assume that any taxation authority will detect any misapplications of the income tax law will contribute to prudent accounting.

45 By clarifying how uncertainty over income tax treatments should be considered when applying IAS 12, EFRAG considers that IFRIC 23 reduces the risk of misstating assets, liabilities, expense and income.

46 EFRAG notes that IFRIC 23's 'probable' recognition threshold for recognising an uncertain tax position is lower than IAS 37's 'virtually certain' threshold for recognising a contingent asset. Accordingly, IFRIC 23 increases the likelihood that an asset is recognised under conditions of uncertainty for an entity that had previously applied IAS 37 to specific types of uncertain tax positions. However, as noted above the 'probable' threshold already exists in IAS 12 and has been assessed as leading to sufficiently prudent accounting.

47 Based on all of the above, EFRAG has concluded that the application of IFRIC 23 will lead to sufficiently prudent accounting.

True and Fair View Principle

48 A Standard will not impede information from meeting the true and fair view principle when, on a stand-alone basis and in conjunction with other IFRS Standards, it:

(a) does not lead to unavoidable distortions or significant omissions in the representation of that entity's assets, liabilities, financial position and profit or loss; and

(b) includes all disclosures that are necessary to provide a complete and reliable depiction of an entity's assets, liabilities, financial position and profit or loss.

49 EFRAG has assessed that IFRIC 23 does not create any distortion with other IFRS Standards. In particular, IFRIC 23 does not change the principles of IAS 12, but rather provides guidance in circumstances in which there is uncertainty in the application of the tax law. Accordingly, EFRAG has assessed that IFRIC 23 does not lead to unavoidable distortions or significant omissions and therefore does not impede financial statements from providing a true and fair view.

50 In addition, EFRAG observes that IFRIC 23 is limited to clarifying the requirements in IAS 12 and does not add additional pressure on the distinction between accounting treatment for taxes under IAS 12 and IAS 7.

51 Finally, IFRIC 23 does not include new disclosure requirements, because IAS 1 and IAS 12 already include disclosure requirements that are relevant to uncertain tax treatments. Accordingly, EFRAG has assessed that IFRIC 23 does not lead to unavoidable distortions or significant omissions and therefore does not impede financial statements from providing a true and fair view.

52 As a result, EFRAG concludes that the application of IFRIC 23 would not lead to information that would be contrary to the true and fair view principle.

Conclusion

53 Accordingly, for the reasons set out above, EFRAG's assessment is that IFRIC 23 meets the technical requirements for EU endorsement as set out in the IAS Regulation.

Appendix 3: Assessing whether IFRIC 23 is conducive to the European public good

Introduction

1 EFRAG considered whether it would be conducive to the European public good to endorse IFRIC 23. In addition to its assessment included in Appendix 2, EFRAG has considered a number of issues in order to identify any potential negative effects for the European economy on the application of IFRIC 23. In doing this, EFRAG considered:

(a) whether IFRIC 23 improves financial reporting. This requires a comparison of IFRIC 23 with the existing requirements and how it fits into IFRS Standards as a whole;

(b) the costs and benefits associated with IFRIC 23; and

(c) whether IFRIC 23 could have an adverse effect on the European economy, including financial stability and economic growth.

2 These assessments allow EFRAG to draw a conclusion as to whether IFRIC 23 is likely to be conducive to the European public good. If the assessment concludes there is a net benefit, IFRIC 23 will be conducive to the objectives of the IAS Regulation.

EFRAG's evaluation of whether IFRIC 23 is likely to improve the quality of financial reporting

3 EFRAG notes that currently there is diversity in accounting for uncertain income tax treatments. Some entities apply IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* where the recognition of assets is based on the 'virtually certain' criterion and liabilities are based on the 'probable' criterion. Other entities apply IAS 12 *Income Taxes* and recognise both uncertain income tax assets and liabilities based on a 'probable' criterion.

4 EFRAG notes that IFRIC 23 is an interpretation of endorsed IFRS Standards. Accordingly, it will not change the existing differences between the accounting for those taxes within the scope of IAS 12 and those taxes within the scope of IAS 37. For uncertainty in income tax treatments, EFRAG assesses that IFRIC 23 will enhance the quality of information being provided to users of financial statements.

5 IFRIC 23 provides guidance on accounting for uncertain income tax treatments, and will therefore remove the existing diversity in practice in applying IAS 12. Further, as noted in Appendix 2, EFRAG considers that IFRIC 23 will enhance the predictive value of information about current and deferred taxes.

6 EFRAG has therefore concluded that IFRIC 23 is likely to improve the quality of financial reporting.

EFRAG's initial analysis of the costs and benefits of IFRIC 23

7 EFRAG first considered the extent of the work. For some Standards or Interpretations, it might be necessary to carry out some extensive work, in order to understand fully the cost and benefit implications of the Standard or Interpretation being assessed. However, in the case of IFRIC 23, EFRAG's view is that the cost and benefit implications can be assessed by carrying out a more modest amount of work.

Cost for preparers

8 EFRAG has carried out an assessment of the cost implications for preparers resulting from IFRIC 23.

9 Regarding one-off costs, EFRAG notes that the guidance in IFRIC 23 does not require capturing or tracking new information as entities are likely to already collect this information in the process of determining their tax positions and for current accounting purposes. However, entities may incur some costs to make changes to their information systems, to include the different accounting requirements depending on the probability of acceptability to the taxation authorities of the uncertain income tax treatments and the likely outcomes under a range of scenarios. Such costs are limited to those entities whose current accounting practices differ from the requirements of IFRIC 23. These costs are not expected to be significant.

10 One-off costs will also result from the costs of choosing and applying the preferred transition method. Depending on their current accounting practice, entities may need to adjust or recalculate previous estimates of taxable profit (tax loss) or/and deferred taxes, if this can be done without the use of hindsight. However, the calculations are generally based on decisions about which tax treatments to apply and the information necessary is likely to be available to the entity.

11 Further, EFRAG foresees some initial costs for preparers to document the accounting policy to determine whether each uncertain tax treatment should be considered independently, or whether some of them should be considered together. Application of the policy will continue as new uncertain tax positions arise.

12 Ongoing costs will also include monitoring of tax information in order to identify changes in facts and circumstances that will impact previous judgements and estimates. The impact of this will depend on the stability of positions from all the relevant tax law and regulations in all the taxation jurisdictions in which the entity operates. The significance of these costs will depend on the extent to which the entity enters into transactions with uncertain tax positions. EFRAG expects that entities that frequently encounter uncertain tax positions already have extensive sources of information about their taxation matters and, therefore, the incremental costs brought by IFRIC 23 are unlikely to be significant.

13 Overall, EFRAG's assessment is that IFRIC 23 is not likely to result in significant costs for preparers related to implementation and ongoing costs of complying with IFRIC 23.

Costs for users

14 EFRAG has carried out an assessment of the cost implications for users resulting from IFRIC 23.

15 EFRAG considers that users may incur one-off costs related to understanding the guidance provided in IFRIC 23. However, IFRIC 23 does not change the principle in IAS 12, but rather provides guidance on specific cases where the IFRS Interpretations Committee was asked to provide guidance on the accounting consequences of uncertainty over the income tax treatment. EFRAG does not expect these costs to be significant.

16 EFRAG does not expect users to incur ongoing costs.

17 Overall, EFRAG's assessment is that IFRIC 23 is likely to result in insignificant costs for users, which are limited to understanding the guidance provided in the Interpretation.

Benefits for preparers and users

18 EFRAG has carried out an assessment of the benefits for users and preparers resulting from IFRIC 23.

19 EFRAG's assessment is that users will benefit from the guidance brought by IFRIC 23 since it will increase the comparability among entities.

20 Even when the advantages for preparers may be not direct, they will benefit from the reduced need to apply judgement and the added transparency of their financial statements being prepared on a more relevant basis.

21 Overall, EFRAG's assessment is that users are likely to benefit from IFRIC 23 as the information resulting from it will increase comparability among entities and therefore will enhance their analysis.

22 EFRAG's assessment is that preparers may gain minor benefits from IFRIC 23 through improved financial statements.

Conclusion on the costs and benefits of the Interpretation

23 EFRAG's overall assessment is that the overall benefits for users resulting from improved financial information being available on a more relevant, understandable and comparable basis are likely to outweigh the implementation and ongoing costs associated with IFRIC 23, which are not considered as insignificant.

Conclusion

24 EFRAG considers that IFRIC 23 will generally bring improved financial reporting when compared to current practice. As such, its endorsement is conducive to the European public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship.

25 EFRAG has not identified that IFRIC 23 could have any adverse effect on the European economy, including financial stability and economic growth.

26 Furthermore, EFRAG has considered whether there are any other factors that would mean endorsement is not conducive to the public good and has not identified any such factors.

27 Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing IFRIC 23, EFRAG assesses that endorsing IFRIC 23 is conducive to the European public good.