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**DCL: Recognition of Deferred Tax Assets for Unrealised Losses (Proposed Amendments to IAS 12)**

27 November 2014

Ref. BdB: BI.01
Prepared by Sü/To

Dear Sir or Madam,

Many thanks for the opportunity to respond to EFRAG's draft comment letter on the above exposure draft issued by the IASB. Our position is set out below.

## Question 1: Existence of a deductible temporary difference

We welcome the clarification that a deductible temporary difference exists even if the debt instrument is to be held to maturity. We believe this is appropriate and logical.

## Question 2: Recovering an asset for more than its carrying amount

We **disagree** with the view of the IASB and EFRAG since the reason why an asset's fair value has dropped below cost will not necessarily always be because of uncertainty about whether or not all cash flows will be received. The fall in value may also be due to interest rate fluctuations or fluctuations in the issuer's credit rating.

In the absence of a trigger event for impairment, however, we would continue to consider it probable that all cash flows from the asset can be collected and that, on maturity, it will therefore be possible to realise the asset for more than its current carrying amount.

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

We agree with the IASB’s proposed clarification and with EFRAG’s comments and suggestions. The future taxable profit on which income tax is payable needs to be adjusted for the reversal of temporary differences so that the utilisation of the temporary differences can be assessed.

**In principle**, we also welcome EFRAG’s suggestion that that an illustrative example should be included in IAS 12.

**EFRAG’s example:**

- Entity A bought a debt instrument with a nominal value of CU1,000. Its fair value on 31 December 2013 is CU800. A determines that there is a deductible temporary difference of CU200. A expects to hold the instrument until its maturity on 31 December 2014 and collect the CU1,000, reversing therefore the deductible temporary difference. In addition, A has a taxable temporary difference of CU50 that will also reverse on 31 December 2014. A expects that in 2015 its future taxable profit upon which income taxes are payable will be a loss of CU50. A’s income tax rate is 30%.

- Step 1: utilisation of deductible temporary differences because of the reversal of taxable temporary differences

| | In currency units |
|---|---|
| Deductible temporary difference | 200 |
| + Reversal of taxable temporary difference | -50 |
| Remaining amount to be tested for utilisation (step 2) | 150 |

- In step 1, entity A can recognise at least a deferred tax asset in relation to a deductible temporary difference of 50.

- Step 2: utilisation of deductible temporary differences because of future taxable profit

| | In currency units |
|---|---|
| Expected tax loss (upon which income taxes are payable) | -50 |
| + Minus reversal of taxable temporary differences (utilised in step 1) | 50 |
| Plus reversal of deductible temporary differences | 200 |
| Taxable profit for assessing the utilisation of deductible temporary differences | 100 |

- In step 2, entity A can recognise a deferred tax asset in relation to a deductible temporary difference of 100. Therefore, entity A would recognise a deferred tax asset of 45 ((50+100)x30%)).

For the following reasons, however, we **disagree** with the example:

- EFRAG takes as its basis the future taxable profit on which income taxes are payable and adjusts it for the **purely hypothetical reversal** of deductible temporary differences amounting to CU200. But since the debt instrument is to be held to maturity, meaning that the loss will at no time influence the taxable income, it is not appropriate to add in the amount of CU200 again since it has never influenced the -50 result.

- On the other hand, the question arises as to how the future taxable profit (-50) on which income taxes are payable was calculated in the first place since taxable profit is normally calculated derivatively, i.e. on the basis of local commercial law or an international accounting standard. If the purely hypothetical reversal of the deductible temporary difference of 200 was taken into account when calculating future taxable profit, this is not the future taxable profit on which income tax is payable. This profit would be CU200 higher.

| | In currency units |
|---|---|
| Taxable profit for assessing the utilisation of deductible temporary differences | 100 |
| + Reversal of taxable temporary difference | 50 |
| = Future taxable profit upon which income taxes are payable | 150 |

The examples in ED 2014/3 and the example in EFRAG's draft comment letter are confusing and inconsistent with one another, in our view. We believe they need to be revised.

## Question 4: Combined versus separate assessment

We share the view of the IASB and support EFRAG's recommendation that a separate rule be included for the treatment of unrealised losses on debt instruments.

## Question 5: Transition

We share the view of the IASB and EFRAG.

Yours sincerely,

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Member of the Management Board

Silvia Schütte
Director