Comment Letter on the ED/2014/3 *Recognition of Deferred Tax Assets for Unrealised Losses*
Comment Letters
European Financial Reporting Advisory Group
35 Square de Meeüs
Brussels B-1000
Belgium

Dear Madam/Sir,

In the present letter ICAC gives its view on EFRAG's position presented in your draft comment letter on IASB's Exposure Draft ED/2014/3 *Recognition of Deferred Tax Assets for Unrealised Losses – Proposed amendments to IAS 12*.

First of all, ICAC welcomes the IASB's initiative aimed to clarify the IAS 12 *Income taxes* regulations, to unify its interpretation and to reduce diversity in practice.

Our responses to the questions in the draft comment letter are explained below.

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?

Assuming that the debt instrument classification is correct and therefore the measurement is at fair value, ICAC agrees with confirming that a deductible temporary difference should arise in the example included in IAS 12, after paragraph 26.

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 form 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?

ICAC agrees with this clarification. We think that the entity's estimate of future taxable profit has to be the most realistic one, although the entity had recognized a deductible temporary difference as a result of the asset measurement at fair value being the asset tax base its original cost.

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?

ICAC also agrees with the amendment proposed, making clear that when estimating the amount of taxable profit, it is necessary to exclude tax deductions for the deductible temporary differences exist. Otherwise, the comparison would not have sense, since it is required the taxable profit for using the deductible temporary difference.

Question 4 – Combined versus separate assessment

The IASB proposes to clarify that an entity assesses whether to recognize 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?

ICAC also agrees with this issue, because the principal requirement for applying a deferred tax asset is that the tax law permits it. So it is logical that the assessment of deferred tax asset takes into the account the possible restrictions established by the tax law.

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?

In view of the fact that the amendments proposed have the character of clarification and they are not new regulation, we do not think that the limited retrospective application would be necessary.

P1ease don't hesitate to contact us if you would like to c1arify any point of this letter.

Yours sincerely,

Ana Mª Martínez-Pina

Chairman of ICAC