BUSINESSEUROPE

International Accounting Standards
Board (IASB)
30 Cannon Street
London EC4M 6XH
United Kingdom

4 December 2014

Dear Board Member,

Re: ED/2014/3 Recognition of Deferred Tax Assets for Unrealised Losses

BUSINESSEUROPE is pleased to provide comments on the above exposure draft (the ED). IAS 12 is a complex standard and the proposed clarifications will go some way towards assisting in avoiding some of the current misunderstanding and difficulties the standard currently causes.

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?

We agree that the amendment (the example illustrating paragraph 26(d)) is a proper interpretation of paragraphs 20 and 26(d).

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?

We welcome the overall clarification provided by proposed paragraph 29A. We are, however, not sure that the assertions about whether it is probable or improbable that the carrying amount will be recovered in the case of recently impaired assets or assets carried at cost in profitable operations are true, and would therefore recommend that these two sentences be removed. The principle stated in the first two sentences of paragraph 29A should be sufficient on its own, and entities will still have to justify their assumption that recovery of a value higher than the carrying amount is more likely than not.

Question 3—Probable future taxable profit against which deductible temporary differences are assessed for utilization

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?

We agree with this clarification, as it avoids double-counting of the tax deduction.

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?

We agree with this clarification (proposed paragraph 27A).

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?

We find the wording of transition requirements confusing, since the ED states that the amendments shall be applied retrospectively in accordance with IAS 8. Paragraph 22 of IAS 8 states that when retrospective application is applied, IAS 8 requires the opening balance of each affected component of equity for the earliest prior period presented to be adjusted. However, the proposals go on to state that the entity is not required to restate the opening balance of equity of the earliest period presented. This is apparently contradictory and it would be helpful to draft this more clearly.

We think that it will generally be straightforward for entities to apply the modifications on a full retrospective basis in accordance with IAS 8, but do not object to retrospective application being on a voluntary basis.

Other comments

Proposed paragraph IE43 does not fully represent the requirements of paragraph 63 of IAS 12 in respect of the allocation of current and deferred tax to P/L, OCI or elsewhere in equity, since it is incomplete. The phrase "or other method that achieves a more appropriate allocation in the circumstances" should be added.

We would be pleased to be of assistance if any further clarification of our comments were to be needed.

Yours sincerely,

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Deputy Director General