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Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
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15 December 2014

Dear Mr Hoogervorst

Exposure Draft ED/2014/3 - Recognition of Deferred Tax Assets for Unrealised Losses

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's (the IASB's) Exposure Draft *Recognition of Deferred Tax Assets for Unrealised Losses* ('the exposure draft').

We welcome the IASB's initiative in seeking to address an area that is often challenging in practice and, in general, agree with the clarifications proposed in the exposure draft.

Our detailed responses to the questions in the invitation to comment, including suggestions for clarification of some of the principles being explained are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS Leader

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Appendix

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 a deductible temporary difference arises in the circumstances described in the proposed example illustrating paragraph 26(d) of IAS 12.

As a point of detail, we recommend that the statement in the proposed example and in paragraph BC4 of the Basis for Conclusions on the exposure draft that "tax law does not explicitly specify any tax consequences resulting from the payment of the entire principal" could be misinterpreted as meaning the tax treatment of such a payment is unknown. It would be clearer to state that payment of the principal will not affect taxable profit.

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 agree with the principle being expressed and that it is relevant to the circumstance of a fixed-rate debt instrument held at fair value which is expected to be recovered by collecting the (higher) principal amount. However, we think that this could be expressed more clearly than in proposed paragraph 29A by contrasting the determination of temporary differences (which assumes that assets will be recovered at their carrying amounts) and the estimation of future profit (which does not).

We agree that this distinction is an appropriate and necessary outcome of the calculation of temporary differences and taxable profit (as defined in paragraph 5 of IAS 12) but are not convinced that this is universally understood and recommend, therefore, that a full explanation of this be added to the Basis for Conclusions on IAS 12.

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?

We agree with the proposed amendment and suggest that paragraph 29 of IAS 12 could be enhanced by:

- stating that (as illustrated in proposed paragraph IE34 of illustrative example 7) the reversal of taxable temporary differences already considered in paragraph 28 is excluded from this calculation; and

- amending paragraph 29(a)(ii) to read: "ignores taxable amounts arising from deductible temporary differences that are expected to originate but not reverse in the future periods under consideration, because the deferred tax asset arising from these deductible temporary differences will itself require future taxable profit in order to be utilised."

We also suggest the addition of:

- a short illustration of the adjustments to estimated taxable profit (as it will appear on the entity's tax return) necessary to provide a figure for assessing the utilisation of deductible temporary differences; and
- a simple example of a fixed-rate debt instrument carried at a fair value below its cost and tax base, with repayment due in a period with no other items affecting taxable profit.

This, in addition to the more comprehensive example 7 proposed in the exposure draft, would give due prominence to an important element of the assessment.

Whilst we agree that proposed example 7 is an accurate reflection of the requirements of IAS 12, it is lengthy and could as a result prove confusing to readers seeking clarity on an isolated issue. We acknowledge that this is to some extent an inevitable result of seeking to illustrate in one example a number of principles, including that of assessing deferred tax assets in combination, but suggest that the IASB consider whether any simplification is possible.

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 that, as stated in proposed paragraph 27A, the recoverability of deferred tax assets should be assessed by assessing the probable availability of taxable profit of the type appropriate to the deductible temporary difference(s) and/or unused tax losses being assessed.

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 note that it is unclear whether the transitional provisions are intended to mean that allocation of any difference arising at the beginning of the earliest comparative period need not be allocated between retained earnings and other components of equity or that the cumulative effect of any difference could be recognised by restating profit or loss in the comparative period. We do not object to the former, although

as noted in paragraph BC25 of the Basis for Conclusions on the exposure draft the proposed changes are mechanical in nature and as such full retrospective application should normally be possible.

In respect of first-time adopters of IFRS, we do not believe that full retrospective application will be less problematic than for existing IFRS preparers. However, we recognise that providing transitional provisions for deferred tax accounting for first-time adopters would require consideration of IAS 12 more broadly than just the amendments proposed in the exposure draft.