

19 December 2014

Mr Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
UNITED KINGDOM

Dear Hans

**AOSSG comments on IASB Exposure Draft ED/2014/3  
*Recognition of Deferred Tax Assets for Unrealised Losses***

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the IASB ED/2014/3 *Recognition of Deferred Tax Assets for Unrealised Losses* (ED). In formulating its views, the AOSSG sought the views of its constituents within each jurisdiction.

The AOSSG currently has 26 member standard-setters from the Asian-Oceanian region: Australia, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan, and Vietnam.

To the extent feasible, this submission to the IASB reflects in broad terms the collective views of AOSSG members. Each member standard-setter may also choose to make a separate submission that is consistent or otherwise with aspects of this submission. The intention of the AOSSG is to enhance the input to the IASB from the Asian-Oceanian region and not to prevent the IASB from receiving the variety of views that individual member standard-setters may wish to submit. This submission has been circulated to all AOSSG members for their feedback after having initially been developed through the AOSSG Chair's Advisory Committee.

Overall, AOSSG members are generally supportive of the proposed amendments in the ED to clarify the recognition of a deferred tax asset that is related to a debt instrument measured at fair value and some other related issues identified by the IFRS Interpretations Committee. However, some AOSSG members have the following views:

- Some drafting amendments should be made on the proposed example in illustrating paragraph 26(d).

- The IASB should provide further guidance regarding the proposed paragraph 29A on how an entity performs its assessment on whether the entity can recover an asset for more than its carrying amount when estimating future taxable profits.
- An additional sentence should be inserted following the proposed first sentence of paragraph 29A to clarify that an entity shall consider all expected future cash flows associated with recovering the asset when estimating future taxable profit.
- A numerical example should be provided to assist application for proposed paragraph 29(a)(i).
- The proposed transition requirement should be carefully considered with reference to comparability between financial statements of existing IFRS users and first-time adopters.

The views of the AOSSG are explained in more detail in the Appendix. If you have any questions regarding any matters in this submission, please contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Clement Chan', is written over a light blue horizontal line.

Clement Chan  
AOSSG Chair

**APPENDIX –Detailed comments from the AOSSG on specific questions in the ED/2014/3**

**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?

1. All members agree with the IASB's proposed clarification since it is consistent with paragraphs 20 and 26(d) of IAS 12 *Income Taxes* that a difference between the carrying amount of an asset measured at fair value and its higher tax base gives rise to a deductible temporary difference.
2. In particular, one member suggests the following drafting amendments should be made either for the proposed example in illustrating paragraph 26(d) or related paragraphs in the Basis for Conclusions:
  - (a) clarify that the debt instrument is measured at fair value in the entity's financial statements;
  - (b) clarify that the deduction of the tax base is to identify the amounts that are *deductible* in determining taxable profit, rather than the ultimate amount *that will be (or is likely to be) deducted* in determining taxable profit; and
  - (c) to conform the language to that currently employed in IAS 12; e.g. 'through use' rather than 'by use'.
3. One member recommends that the proposed example should be moved to the Basis for Conclusions or Illustrative Examples for clarity.

**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?

4. Members generally agree with the IASB's proposed clarification regarding the extent to which an entity's estimate of future taxable profit includes amounts from recovering assets for more than their carrying amounts. As mentioned in paragraph BC13, a limitation on the estimate of probable future taxable profits by the carrying amount of assets can lead to inappropriate results.

**APPENDIX – Detailed comments from the AOSSG on specific questions in the ED/2014/3**

5. One member suggests the IASB should provide more guidance regarding the application of the proposed paragraph 29A as it is not sufficiently clear to assist entities in performing such an assessment. The lack of guidance in this area may lead to unintended consequences and diversity in practice which would reduce comparability.
6. Another member agrees with the inclusion of a paragraph similar to the proposed paragraph 29A, but this member thinks that the proposed amendment should also address the instrument which is the subject of these amendments (i.e. where recovery of an asset carried at fair value for more than its carrying amount is probable).
7. Furthermore, this member thinks that it is not clear whether the intention of the words ‘for more than its carrying amount’ is to capture a ‘fair value’ or a ‘cash flow’ notion. Accordingly, this member recommends that an additional sentence be inserted following the proposed first sentence of paragraph 29A, as follows:

In estimating future taxable profit, an entity considers all expected future cash flows associated with recovering the asset, including an asset to which a deductible temporary difference is related.

<p><b>Question 3 – Probable future taxable profit against which deductible temporary differences are assessed for utilisation</b></p>
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<p>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.</p>
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<p>Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?</p>
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8. Members generally agree with the proposed amendment in paragraph 29(a) of IAS 12 so as to avoid double counting. In particular:
  - (a) One member suggests that deductible temporary differences which are not recognised due to insufficiency of future taxable profits shall be disclosed separately together with the nature of such insufficiency, for example, due to insufficiency in capital gain or ordinary profits.
  - (b) Another member suggests that the IASB should include a numerical example to illustrate the application of paragraph 29(a)(i) as it is difficult to understand.
  - (c) Another member thinks that the second sentence in the proposed paragraph 29(a)(i) is not necessary and suggests it should be deleted.

## APPENDIX – Detailed comments from the AOSSG on specific questions in the ED/2014/3

### 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?

9. All members agree with the proposed clarification in IAS 12 regarding the treatment if tax law only permits offsetting of specific types of loss against a particular type or types of income.

### 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?

10. Members have mixed views with the proposed transition provisions regarding limited retrospective application for existing IFRS users and full retrospective application for first-time adopters.
11. One member that disagrees with the proposal thinks that the transition provisions should require all existing IFRS users to apply the amendments in the same manner, except when it is impracticable. Another member that disagrees with the proposal is concerned that such an option could impair comparability, therefore the IASB should carefully consider whether the benefits of applying the proposed transition in practice would outweigh the effects of reduced comparability.

### Other comments

12. One member considers that the proposed paragraphs IE41-IE43 are not directly related to the proposed amendments and suggests that they should be revised or removed.