



International Organization of Securities Commissions
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المنظمة الدولية لهيئات الأوراق المالية

November 14, 2019

International Accounting Standards Board
Columbus Building
7 Westferry Circus
London, E14 4HD
United Kingdom

RE: ED/2019/5 – *Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Proposed amendments to IAS 12*

Our ref: 2019/O/MS/C1/IASB/161

Dear International Accounting Standards Board Members:

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Exposure Draft ED 2019/5: *Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Proposed Amendments to IAS 12* (the Exposure Draft or ED).

IOSCO is committed to promoting the integrity of the international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO’s mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect the general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

Overall Comments

In general C1 members agree with the proposed amendment but we suggest to improve the understandability of the standard by including an illustrative example and moving guidance provided in the Basis for Conclusions to the core of the standard.

Responses to Specific Questions

Our responses to the specific questions raised in the Exposure Draft have been provided below:



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Question 1: Do you agree with the Board’s proposal to amend IAS 12 in the manner described in the Exposure Draft? If not, why not, and what do you recommend instead?

In general we agree with the proposed amendment to narrow the recognition exemption so that it would not apply to transactions that are not business combinations and that lead to equal amounts of taxable and deductible differences that arise from the initial recognition of an asset and a liability and, at the time of the transaction, affect neither accounting profit nor taxable profit (tax loss).

However, we have some comments to improve the understandability of the required treatment of deferred taxes in relation to these transactions.

The amendment requires the recognition of equal amounts of DTA and DTL if at initial recognition of the asset and the liability there is an equal amount of taxable and deductible differences.

- Paragraph 22 (c) refers to “equal amounts of deferred tax assets and liabilities”, while the fact that the amounts of DTA and DTL are “equal” may be the result of the cap mentioned in paragraph 22A. Therefore, we think that paragraph 22 (c) should state “equal amounts of taxable and deductible temporary differences” consistent with paragraph 22A, paragraph 24 (c) and paragraph 15 (b) (iii).
- In BC19 it is stated that even when there are equal amounts of taxable and deductible temporary differences, the amount of the DTA can be lower than the amount of the DTL due to the recoverability requirement. In the absence of this cap the excess would be recognised in the asset or liability which for the reasons stated in paragraph 22 (c) would make financial statements less transparent. This cap is therefore consistent with the principles in IAS 12.

However, we wonder whether there might be other reasons for differences between the DTA and the DTL, for example if the applicable tax rate for the taxable temporary difference differs from the tax rate applicable to the deductible temporary differences because there is a reversal in a different period where another tax rate is applicable. It is not clear from the Exposure Draft how entities should account for such differences.



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BC7 indicates that an entity has to determine whether tax deductions related to lease payments are attributable to (a) the lease asset (and interest expense); or (b) the lease liability (and interest expense).

- Since the accounting treatment depends on that assessment, in order to ensure a consistent application, we consider it important to have this requirement in the standard (this is not a basis for conclusions, rather it is a step to follow in order to apply the requirements in IAS 12).
- It is also not clear which elements of the applicable tax law should be considered for this analysis. To our understanding, the tax laws indicate the amount that is available for tax deduction and do not mention whether this amount is seen as a depreciation of the asset together with interest, or the reimbursement of the liability together with interest.
- Unless mistaken, we also do not find guidance on how an entity has to allocate the deductible amount to interest and amortization/reimbursement.

An illustrative example based on the one developed by Mr. Kaburech in the IASB In Brief - Deferred Tax related to Assets and Liabilities from a single transaction would be helpful. We suggest to extend the example so that

- It is clear how an entity decides whether the tax deductions relate to the lease asset or to the lease liability.
- How an entity decides whether the tax deductions received in each period are attributed first to interest expense accrued and then to depreciation or vice versa.
- How the treatment would be if the deductions were first attributed to depreciation.
- How the amendments would be applied to scenario B.

We appreciate your thoughtful consideration of the responses provided in this letter. If you have any questions or need additional information, please do not hesitate to contact Cameron McInnis, Chair of the Accounting Subcommittee of Committee 1 at +1 416-593-3675 or myself. In case of any written communication, please mark a copy to me.

Sincerely,

Makoto Sonoda
Chair
Committee on Issuer Accounting, Audit and Disclosure
International Organization of Securities Commissions