Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/FRSC

Sent electronically through the IASB Website (www.ifrs.org)

18 December 2014

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

Dear Sirs,

IASB Exposure Draft of Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12)

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on this Exposure Draft (ED). Our responses to the questions raised in your Invitation to Comment are set out in the Appendix for your consideration.

We welcome the proposed amendments to IAS 12 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.

We support the proposals in the ED but would suggest the IASB extend the proposed example illustrating paragraph 26(d) beyond the first year to show the temporary difference unwinding. We also recommend that a numerical example should be added in the body of the Standard to assist understanding of the proposed paragraph 29(a)(i) regarding the clarification that an entity's estimate of future taxable profit should exclude tax deductions resulting from reversal of deductible temporary differences.

If you have any questions regarding the matters raised in our comment letter, please contact Ben Lo, our Associate Director of Standard Setting at ben@hkicpa.org.hk.

Yours faithfully,

Chris Joy
Executive Director

CJ/BL

Encl.

Hong Kong Institute of CPAs

Comment on IASB Exposure Draft of Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12)

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 with the proposed clarification: it is consistent with paragraph 26(d) of IAS 12 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. We agree with the view contained in paragraph BC7 that the economic benefit embodied in the related deferred tax asset results from the ability of the holder of the debt instrument to achieve future taxable gains in the amount of the deductible temporary difference without paying taxes on those gains.

Moreover, we suggest the IASB should extend the proposed illustrative example beyond the first year to show the difference unwinding, as this will help illustrate the impact on total income tax cost and effective tax rate over the life of the temporary difference.

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 IASB's proposed amendment: we believe it will reduce diversity in practice on the assessment of whether an entity can recover an asset for more than its carrying amount when estimating future taxable profits. We support the view contained in paragraphs BC12-BC14 as 'determining temporary differences and estimating probable future taxable profit against which deductible temporary differences are assessed for utilisation are two separate steps' and 'a limitation on the estimate of probable future taxable profits by the carrying amount of assets can lead to inappropriate results'.

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 welcome the IASB's clarification that an entity's estimate of future taxable profit should exclude tax deductions resulting from reversal of deductible temporary differences.

However, we find the proposed paragraph 29(a)(i) difficult to understand and suggest a numerical example to be included in the body of the Standard to assist understanding.

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 the proposed 27A as there is no explicit requirement contained in IAS 12 regarding the treatment if tax law only permits offsetting of specific types of loss against a particular type or particular types of income. The proposed amendment adds clarity to paragraph 24 which relates to the extent to which the deductible temporary differences can be utilised.

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 agree with the proposed transition provisions.

~ End ~