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

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

8 November 2010

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear David,

IASB Exposure Draft of *Deferred Tax: Recovery of Underlying Assets (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 the captioned Exposure Draft (ED). Our responses to the questions raised in your ED are set out in the Appendix for your consideration.

As you are aware, Hong Kong has fully adopted International Financial Reporting Standards (IFRSs) since 2005 as Hong Kong Financial Reporting Standards (HKFRSs). We have been receiving adverse comments from the local business community and market analysts on the existing IAS 12 since 2005 which requires the recognition of deferred tax liabilities on valuation gains arising in respect of investment properties that in practice will never be settled in Hong Kong. We are therefore grateful for the IASB's effort in developing this limited amendments. We consider the proposed amendments will provide a practical solution to the long outstanding deferred taxation issue in Hong Kong and other jurisdictions affected by this anomaly in IAS 12.

Further details of our views on the Amendments are set out in the Appendix in our responses to the consultation questions.

If you have any questions on our comments, please do not hesitate to contact me at ong@hkicpa.org.hk.

Yours sincerely,

Steve Ong, FCPA, FCA
Director, Standard Setting Department

SO/AW/jn

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Hong Kong Institute of CPAs

Comments on the IASB Exposure Draft of *Deferred Tax: Recovery of Underlying Assets (Proposed Amendments to IAS 12)*

<u>Question 1 – Exception to the measurement principle</u>

The Board proposes an exception to the principle in IAS 12 that the measurement of deferred tax liabilities and deferred tax assets should reflect the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities. The proposed exception would apply when specified underlying assets are remeasured or revalued at fair value.

Do you agree that this exception should apply when the specified underlying assets are remeasured or revalued at fair value?

Why or why not?

We agree that the exception would apply when the specified underlying assets are remeasured or revalued at fair value.

<u>Question 2 – Scope of the exception</u>

The Board identified that the expected manner of recovery of some underlying assets that are remeasured or revalued at fair value may be difficult and subjective to determine when deferred tax liabilities or deferred tax assets arise from:

(a) investment property that is measured using the fair value model in IAS 40;
(b) property, plant and equipment or intangible assets measured using the revaluation model in IAS 16 or IAS 38;
(c) investment property, property, plant and equipment or intangible assets initially measured at fair value in a business combination if the entity uses the fair value or revaluation model when subsequently measuring the underlying asset; and
(d) other underlying assets or liabilities that are measured at fair value or on a revaluation basis.

The Board proposes that the scope of the exception should include the underlying assets described in (a), (b) and (c), but not those assets or liabilities described in (d). Do you agree with the underlying assets included within the scope of the proposed exception?

Why or why not? If not, what changes to the scope do you propose and why?

We agree with the types of assets included in the scope of the proposed exception.

<u>**Question 3 – Measurement basis used in the exception**</u>

The Board proposes that, when the exception applies, deferred tax liabilities and deferred tax assets should be measured by applying a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely through sale. This presumption would be rebutted only when an entity has clear evidence that it will consume the asset's economic benefits throughout its economic life.

Do you agree with the rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale when the exception applies?

Why or why not? If not, what measurement basis do you propose and why?

We agree with the rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale when the exception applies.

<u>**Question 4 – Transition**</u>

The Board proposes that the amendments should apply retrospectively. This requirement includes retrospective restatement of all deferred tax liabilities or deferred tax assets within the scope of the proposed amendments, including those that were initially recognised in a business combination.

Do you agree with the retrospective application of the proposed amendments to IAS 12 to all deferred tax liabilities or deferred tax assets, including those that were recognised in a business combination?

Why or why not? If not, what transition method do you propose and why?

We agree with the proposed transitional provisions for retrospective application of the amendments, including when related to deferred tax assets and liabilities recognised from a previous business combination

<u>**Question 5 – Other comments**</u>

Do you have any other comments on the proposals?

We have no other comment on the proposals.

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