

November 9, 2010

Submitted electronically via www.ifrs.org

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

Dear Sirs,

Re: Deferred Tax: Recovery of Underlying Assets (Proposed amendments to IAS 12)

This letter is the response of the Canadian Accounting Standards Board to the International Accounting Standards Board's Exposure Draft "Deferred Tax: Recovery of Underlying Assets (Proposed amendments to IAS 12)" dated September 2010. The Appendix to this letter has been prepared by staff of the Canadian Accounting Standards Board and includes responses to the questions posed in the Exposure Draft.

The views expressed in this letter take into account comments and perspectives raised during consultations with interested stakeholders and are provided within the context of the Canadian tax regime. The views expressed in this letter do not necessarily represent a common view of the Canadian Accounting Standards Board, its staff or stakeholders. Views of the Canadian Accounting Standards Board are developed only through due process.

The Canadian Accounting Standards Board supports the proposal to add a rebuttable presumption for investment properties that are measured at fair value. We agree that IAS 12 *Income Taxes* does not contain sufficient guidance to apply the measurement principle in paragraph 52 to these assets. Investment properties are often held both for rental income and capital appreciation and different tax consequences arise from use or sale. We think this dual

intention creates the need for clarification on how to apply IAS 12. We note that the Basis for Conclusions refers to the amendments as an exception. Application guidance clarifying how to apply the existing principle to investment properties that are held for both use and sale may have achieved a similar result as the proposed amendments without requiring an exception. However, we support the introduction of the rebuttable presumption in order to resolve on a timely basis the practical issue of applying this measurement principle to investment properties that are measured at fair value.

We do not support extending the scope of the exception to property, plant and equipment and intangible assets. We think that the underlying characteristic creating the need for an exception for investment properties is that investment properties are held both for use and sale. We think this issue generally does not exist for most assets within the scope of IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* because those assets are held for use. Instead, we think the scope of the exception should only be extended to owner-occupied properties held for both use and capital appreciation and measured using the revaluation model under IAS 16. The underlying characteristic creating the need for an exception is the same for those assets as for assets measured at fair value under IAS 40.

We encourage the IASB to finalize the proposed amendments promptly so that entities adopting IFRSs in 2011 have clear direction as they complete their preparations for the transition.

We would be pleased to provide more detail if you require. If so, please contact Mark Walsh, Principal, Accounting Standards (+1 416 204-3453 or email mark.walsh@cica.ca), or Kathryn Ingram, Principal, Accounting Standards (+1 416 204-3475 or e-mail kathryn.ingram@cica.ca).

Yours truly,



Gordon C. Fowler, FCA

Chair,

Accounting Standards Board

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Appendix

Comments of the Canadian Accounting Standards Board staff on the September 2010 Exposure Draft, *Deferred Tax: Recovery of Underlying Assets (Proposed amendments to IAS 12)*

Question 1 – Exception to the measurement principle

We agree that this exception should apply when the specified underlying assets are remeasured or revalued at fair value because estimating whether a fair value increment on a property will be recovered by use or sale is extremely difficult and subjective. For example, an investment property may be held for a very long time, possibly several decades. Also, the number of years an investment property will provide rental income and the timing of the ultimate sale of the property are usually unknown. Estimates are therefore very subjective and even arbitrary, resulting in inconsistency and lack of comparability.

We agree that this exception should not apply when a specified underlying asset is measured using the cost model because generally an asset's cost is recovered by use to the extent of the depreciable amount and by sale to the extent of the residual value. As a result, applying the measurement principle in IAS 12 is not difficult and subjective when using the cost model.

Question 2 – Scope of the exception

We do not agree with the proposed scope of the exception. We think the scope of the exception should be limited to investment properties that are measured using the fair value model in IAS 40 and owner-occupied properties held for both use and capital appreciation that are measured using the revaluation model under IAS 16. As previously noted, we do not support extending the scope of the exception to other property, plant and equipment and intangible assets because these assets are held for use.

Question 3 – Measurement basis used in the exception

We agree with the rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale when the exception applies because this measurement basis is consistent with measuring the underlying asset at fair value. A presumption that the fair value of the underlying asset will be recovered entirely by sale best reflects the economic reality of the tax consequences existing at the balance sheet date.

Question 4 – Transition

We agree that the amendments should apply retrospectively because consistency and comparability will be achieved and this transition method will not be unduly burdensome to apply.

Question 5 – Other comments

We do not have any other comments on the proposals.