IFRS Interpretations Committee Meeting

Staff Paper

Agenda reference **15**

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Project **Agenda request**

Topic **IAS 12 *Income Taxes* – Recognising deferred tax assets for unrealised losses on available-for-sale debt securities**

Purpose of this paper

1. In March 2010, the Committee received a request relating to how an entity determines, in accordance with IAS 12 *Income Taxes*, whether to recognise a deferred tax asset relating to unrealised losses on available-for-sale debt securities (AFS debt securities).

2. The request identifies a situation when an entity:

   (a) holds AFS debt securities with an original cost and tax base of CU200 but a fair value of only CU150 at the reporting date;

   (b) has the ability and intent to hold the AFS debt securities until the loss of CU50 reverses and to receive the future contractual cash flows (which may be at maturity of the AFS debt securities); and

   (c) has insufficient taxable temporary differences and no other probable taxable profits against which the temporary difference of CU50 relating to the AFS debt securities can be utilised.

3. In this situation, the request asks whether in applying IAS 12, the entity should:

   (a) identify a deductible temporary difference of CU50 at the reporting date, relating to the difference between the tax base of CU200 and the fair value of CU150;

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

(b) consider its ability and intent to hold the AFS debt securities until the loss of CU50 reverses as a tax planning opportunity; and

(c) assess whether a deferred tax asset, relating to the deductible temporary difference of CU50, can be recognised on a separate basis, rather than in combination with other deductible temporary differences.

This is because the specific loss of CU50 relating to the AFS debt securities is expected to reverse, even though the entity has no other probable taxable profits against which this loss could be utilised.

4. Although the issue identified in the request is in the context of financial assets recognised and measured in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, a similar issue may also arise within the context of IFRS 9 *Financial Instruments*.

5. This paper:

(a) provides background information;

(b) analyses the issue raised in the context of IFRSs;

(c) makes a staff recommendation for the Committee agenda decision; and

(d) asks the Committee whether they agree with the staff recommendation.

Background information

6. IAS 12.24 requires an entity to recognise a deferred tax asset for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, subject to certain initial recognition exceptions.

7. IAS 12.29 further elaborates upon the extent to which an entity is required to recognise a deferred tax asset when there are insufficient taxable temporary differences. It states:

> When there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, the deferred tax asset is recognised to the extent that
>
> (a) it is probable that the entity will have sufficient taxable profit relating to the same taxation authority and the same taxable entity …
>
> (b) *tax planning opportunities* are available to the entity that will *create taxable profit* in appropriate periods. (emphasis added)

8. In the situation identified, the requestor believes that a deductible temporary difference of CU50 exists at the reporting date, relating to the difference between the tax base of CU200 and the fair value of CU150.

9. However, the request identifies two different views existing in practice in the determination of whether a deferred tax asset can be recognised relating to this deductible temporary difference of CU50.

View 1 – Tax planning opportunity and separate assessment

10. In accordance with View 1:

    (a) the entity's ability and intent to hold the AFS debt securities until the loss of CU50 reverses **is** considered a tax planning opportunity in accordance with IAS 12.29; and

    (b) a deferred tax asset is recognised in accordance with IAS 12.24 in relation to the deductible temporary difference at the reporting date of CU50. This is based on an evaluation of this deductible temporary difference of CU50 **separately** from other deductible temporary differences.

11. Consequently, in accordance with View 1, an entity recognises a deferred tax asset for deductible temporary differences relating to AFS debt securities.

12. Non-recognition of deferred tax assets for other deductible temporary differences would not affect this assessment.

View 2 – No tax planning opportunity and a combined assessment

13. In accordance with View 2:

    (a) the entity's ability and intent to hold the AFS debt securities until the loss of CU50 reverses is **not** considered a tax planning opportunity in accordance with IAS 12.29; and

    (b) a deferred tax asset in relation to the deductible temporary difference at the reporting date of CU50 can only be recognised in accordance with IAS 12.24 as part of a combined assessment with other temporary differences.

14. If View 2 is applied, a combined assessment would not lead to an entity recognising a deferred tax asset in relation to deductible temporary differences of CU50 because the entity has no other probable taxable profits.

US GAAP discussions

15. The staff believe that consideration of the accounting in accordance with US GAAP should be considered because:

    (a) the staff are aware that similar issues have been discussed in the context of US GAAP;

    (b) analogies with US GAAP are used to support arguments in the request; and

    (c) one of the objectives of the Board's current *Income Tax* project was to avoid creating more divergence from US GAAP.

16. According to a request letter submitted to the FASB[1], the SEC began discussing this issue in late 2008 following a request from certain US GAAP preparers. The SEC staff concluded that they would not object to the application of **either** View 1 or View 2.

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[1] Reference Number 1600-DTU in the FASB Website (FASB Home - Projects - Comment Letters)

17. This led to the issue being discussed by the EITF Agenda Committee in early 2009[2] and subsequent discussions by the FASB.

18. The most recent FASB discussion was on 3 March 2010 in the context of the project on *Accounting for Financial Instruments*. The minutes from that meeting noted that:[3]

> **Deferred Tax Assets**
>
> The Board discussed alternative methods for assessing a valuation allowance for a deferred tax asset.
>
> The Board decided that deferred tax asset valuations on debt instruments measured at fair value with changes recognized in other comprehensive income *should be evaluated in combination with other deferred tax assets of an entity. (Vote 5-0)* (emphasis added)

19. The FASB plans to include guidance on this issue in its *Financial Instruments* exposure draft. The staff understand this guidance is consistent with View 2 in this agenda paper.

Staff Analysis

Should the entity identify a deductible temporary difference at the reporting date of CU50 relating to the difference between the tax base of CU200 and the fair value of CU150?

20. IAS 12.5 defines a deductible temporary difference as:

> Temporary differences are *differences between the carrying amount of an asset or liability in the statement of financial position and its tax base.* Temporary differences may be either:
>
> (a) taxable temporary differences, …; or
>
> (b) deductible temporary differences, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods *when the carrying amount of the asset or liability is recovered or settled*. (emphasis added)

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[2] Emergence Issue Task Force Meetings on January 15 and March 19, 2009.

[3] March 3, 2010 FASB Meeting Minutes: Accounting for Financial Instruments

21. The requestor believes that application of IAS 12.5 results in identification of a deductible temporary difference of CU50, because at the end of the reporting period:

    (a) the temporary difference exists because the carrying amount of the asset is CU150 and the tax base is CU200; and

    (b) the temporary difference of CU50 will be deductible in determining taxable profit (tax loss) when the AFS debt security is recovered at the carrying amount of CU150.

22. The staff agree with the requestor that a deductible temporary difference of CU50 exists at the end of the reporting period.

23. This is consistent with the objectives of IAS 12 which state that:

    > It is inherent in the recognition of an asset or liability that the reporting entity expects to recover or settle the carrying amount of that asset or liability.

24. As a result the staff believe that IAS 12 utilises a 'balance sheet approach' to identifying temporary differences and recognising deferred assets and liabilities based on the carrying amount as of the reporting date.

Should the entity consider its ability and intent to hold the AFS debt securities until the loss of CU50 reverses as constituting a tax planning opportunity?

*View 1 – this strategy **is** a tax planning opportunity*

25. Proponents of View 1 argue that the entity's intent and ability to hold the AFS debt securities until the loss of CU50 reverses **is** akin to a tax planning opportunity. This is because the strategy of holding the instrument prevents a tax loss being realised.

26. They note that IAS 12.30 states that:

    > Tax planning opportunities are actions that the entity would take in order to *create or increase taxable income* in a particular period before the expiry of a tax loss or tax credit carryforward. (emphasis added)

27. They believe that preventing a tax loss being realised is the same as or similar to creating taxable income to utilise the realised tax loss.

*View 2 – this strategy is **not** a tax planning opportunity*

28. Proponents of View 2 do **not** believe the entity's ability and intent to hold the AFS debt securities until the loss of CU50 reverses is a tax planning opportunity.

29. They believe that IAS 12.30 requires a strategy to **create** taxable income in the future. The action of the entity in holding the AFS debt security until the loss of CU50 reverses prevents the tax loss from being realised, rather than creating taxable income.

30. They believe that asserting that the tax loss is not going to be realised is inconsistent with the deferred tax recognition principle included in the objectives of IAS 12. This recognition principle assumes the recovery of the AFS debt security at the carrying amount (CU150) on the reporting date, not a future recoverable amount.

Should the entity assess whether a deferred tax asset, relating to the deductible temporary difference of CU50, can be recognised on a separate basis, rather than in combination with other deductible temporary differences?

31. If an entity's ability and intent to hold the AFS debt securities until the loss of CU50 reverses is considered a tax planning opportunity in accordance with IAS 12, a further question arises: can the related deferred tax asset be recognised separately from an assessment of other deductible differences?

View 1 – Separate assessment

32. Proponents of View 1 believe that the assessment of whether a deferred tax asset, relating to the deductible temporary difference of CU50, can be recognised should be performed **separately** from the assessment of other deductible temporary differences.

33. This is because:

(a) the deferred tax asset relating to the CU50 deductible temporary difference is expected to reverse through the passage of time without affecting future taxable profits; and

(b) they analogise to the practice in US GAAP of analysing the character of income (eg ordinary income or capital gain) when assessing the future realisation of an existing deductible temporary difference.

This argument was not included in the FASB staff agenda papers that were prepared for the March 2010 FASB meeting when the FASB voted unanimously to require a combined, rather than a separate, assessment.

34. Consequently, supporters of this view believe that an entity can recognise a deferred tax asset relating to the CU50 deductible temporary differences even though the entity expects no other probable taxable profits against which other temporary differences can be utilised.

View 2 – Combined assessment

35. Proponents of View 2 believe that the assessment of whether a deferred tax asset, relating to the deductible temporary difference of CU50, can be recognised should be performed in **combination** with other deductible temporary differences.

36. This is because the passage of time arguments in View 1:

(a) conflict with the rationale for considering the entity's actions to be a tax planning opportunity.

This rationale was based on the assertion that preventing a tax loss being realised is the same as or similar to creating taxable income.

(b) are inconsistent with the approach in IAS 12 of assessing deferred tax assets that are expected to reverse merely by passage of time on a combined basis.

For example, a deductible temporary difference arising from book depreciation in excess of tax depreciation generally reverses by passage

of time, but a deferred tax asset for that temporary difference is not assessed separately;

(c) could indicate that a deductible temporary difference expected to reverse without affecting future taxable profits does not have a future tax consequence; and therefore it does not result in recognition of a deferred tax asset.

The staff believe this is inconsistent with the objectives of IAS 12.

37. In addition:

(a) IAS 12, in paragraphs 24 to 31, requires an entity to assess the probability of realising deductible temporary differences in the future on an entity basis, not segregating each temporary difference and assessing it on a separate basis; and

(b) the principle of assessing deferred tax assets on an entity basis is consistent with the definition in IAS 12.5, which states:

> Taxable profit (tax loss) is the profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).

Rules established by taxation authorities (tax law) generally require assessment of taxable profit on an entity base. If tax law restricts utilisation of tax losses to the same character of income, a deferred tax asset should be assessed in combination with others of the same character. However, this analysis is based upon the tax requirement for classification of income, not upon the accounting requirements.

38. Consequently, supporters of this view believe that an entity **cannot** recognise a deferred tax asset relating to the CU50 deductible temporary differences when the entity expects no probable taxable profits against which temporary differences could be utilised.

Staff recommendation

39. The staff support the view that:

    (a) a deductible temporary difference of CU50 at the reporting date relating to the difference between the tax base of CU200 and the fair value of CU150 exists.

    This is consistent with both views.

    (b) the action of an entity in holding the AFS debt security until the loss of CU50 reverses is **not** akin to a tax planning opportunity.

    This is consistent with View 2 in the request.

    (c) the assessment of whether a deferred tax asset, relating to the deductible temporary difference of CU50, can be recognised should be performed in **combination** with other deductible temporary differences.

    This is consistent with View 2 in the request.

40. The staff think that View 1 contradicts:

    (a) the recognition principle in IAS 12, which is based on carrying amounts at the reporting date (a balance sheet approach); and

    (b) the requirements to assess the probability of realising a deferred tax in the future on an entity basis, not on a separate temporary difference basis.

41. The staff recommend that the Committee should not add this issue to its agenda because the principles of IAS 12 are clear in supporting View 2.

42. The staff note that this view is also consistent with recent decisions taken by the FASB. Consequently, maintaining the current guidance in IAS 12 based on View 2 will avoid divergence with US GAAP on this issue.

Agenda criteria assessment for the Committee

43. The staff's preliminary assessment of the agenda criteria is as follows:

(a) *The issue is widespread and has practical relevance.*

Yes. The staff believe that the issue could potentially be widespread and has practical relevance. Specifically, after the SEC staff made no objection to an individual registrant's request in early 2009, we understand that more entities are now considering whether to assess a deferred tax asset relating to debt securities in accordance with View 1.

(b) *The issue indicates that there are significantly divergent interpretations (either emerging or already existing in practice). The Committee will not add an item to its agenda if IFRSs are clear, with the result that divergent interpretations are not expected in practice.*

Yes. The staff were told that divergent interpretations are emerging in practice, primarily as a result of the views expressed by the SEC in 2009 relating to the guidance in US GAAP.

(c) *Financial reporting would be improved through elimination of the diverse reporting methods.*

Yes. The staff believe that financial reporting would be improved through elimination of the diverse reporting methods.

(d) *The issue can be resolved efficiently within the confines of existing IFRSs and the Framework, and the demands of the interpretation process.*

No. The staff believe that the answer is clear based upon the recognition principles and the requirements to assess deferred tax assets on an entity basis in accordance with IAS 12.

(e) *It is probable that the Committee will be able to reach a consensus on the issue on a timely basis.*

Yes. The staff believe that the answer is clear in accordance with IAS 12 and that the Committee can reach a conclusion on a timely basis.

(f) *If the issue relates to a current or planned IASB project, there is a pressing need to provide guidance sooner than would be expected from the IASB's activities. The Committee will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the Committee requires to complete its due process.*

Not applicable.

In the March 2010 Board meeting, the IASB decided to revise the scope of the *Income Tax* project. This issue is not included in the revised scope of the project. The Board also decided to consider a fundamental review of the accounting for income taxes in future. However, the timing of this fundamental review is uncertain.

Question to the Committee

44. The staff would like to put the following questions to the Committee:

Questions for the Committee
1. Does the Committee agree with the staff recommendation not to add this issue to the agenda? If not, how does the Committee recommend the staff to proceed? 2. Does the Committee have any comments on the proposed wording for the tentative agenda decision in Appendix A?

Appendix A – Proposed wording for agenda decision

A1. The below tentative agenda decision is proposed if the Committee support the staff recommendation in the agenda paper.

IAS 12 *Income Taxes* – Recognising deferred tax assets for unrealised losses on available-for-sale debt securities

The Committee received a request for guidance relating to how an entity determines, in accordance with IAS 12, whether to recognise a deferred tax asset relating to unrealised losses on available-for-sale debt securities (AFS debt securities). The request asks if an entity's ability and intent to hold the AFS debt securities until the unrealised losses reverse is a tax planning opportunity. If so, the question goes on to ask whether recognition of a deferred tax asset relating to the unrealised losses can be assessed separately from the recognition of other deferred tax assets.

The Committee noted that the objectives of IAS 12 and the deferred tax recognition principle relating to deductible temporary differences are based on recovering or settling the carrying amount of the asset or liability at the reporting date. In addition, the approach in paragraphs 24-31 of IAS 12 requires an entity to assess the probability of realising deferred tax assets on a combined, not separate basis.

Consequently, the Committee [decided] not to add this issue to its agenda.

Appendix B – Agenda request

B1. The staff received the following IFRIC agenda request. All the information has been copied without modification by the staff, except for details that would identify the submitter of the request.

COMMITTEE POTENTIAL AGENDA ITEM REQUEST

The issue:

Paragraph 24 of IAS 12 requires an entity, subject to the exceptions in that paragraph, to recognise a deferred tax asset in respect of a deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Paragraph 29(b) of IAS 12 elaborates on this general principle by requiring an entity to recognise a deferred tax asset to the extent that tax planning opportunities are available to the entity that will create taxable profit in appropriate periods. Tax planning opportunities are defined in paragraph 30 of IAS 12 as actions that the entity would take in order to create or increase taxable income in a particular period before the expiry of a tax loss or tax credit carryforward.

How should an entity apply these requirements to a deductible temporary difference resulting from an unrealised loss on available-for-sale debt securities, if:

- taxable profits against which the deductible temporary difference can be utilised are not probable,
- the entity expects no loss of principal or interest on the available-for-sale debt securities (i.e., no impairment has been recognised in profit or loss in accordance with paragraph 67 of IAS 39 *Financial Instruments: Recognition and Measurement*), and
- the entity intends to hold the available-for-sale debt securities until the loss reverses and has the ability to hold these debt securities until maturity, if necessary?

Example:

An entity with an effective tax rate of 40% for ordinary income and 30% for capital income has cumulative tax losses related to taxable ordinary losses/income available for carryforward of CU900 and there are no carryforward losses or carryback income related to taxable capital income/loss. The entity holds an investment in an available-for-sale debt security with an original cost, and tax base, of CU200 that has experienced a decline in fair value. At 31 December 20X3, the fair value of the debt security is CU150. This gives rise to a potential deferred tax asset related to the capital nature of hypothetical tax loss of CU15 (temporary difference CU50 @ 30%). The remainder of

the example presumes that the deferred tax asset only may be realised through taxable income that is capital in nature.

The entity determined that no loss of principal or interest is expected and intends to hold the investment until recovery, and has the ability to hold the debt security until maturity, if necessary. No other temporary difference exists and the entity is unable to carry back tax losses that are capital in nature.

Does the entity nevertheless recognise a deferred tax asset of CU15 for the deductible temporary difference relating to the available-for-sale debt security?

Current practice:

We have become aware that there is diversity on the application of paragraphs 29 and 30 of IAS 12 to deductible temporary differences arising from unrealised losses on available-for-sale debt securities:

View 1:

Some entities argue that management's intent and ability to hold available-for-sale debt securities with unrealised losses until recovery (which may be maturity) can be considered akin to a tax planning opportunity as defined by paragraph 30 of IAS 12, since the strategy serves to prevent the related hypothetical tax loss from occurring (the same objective as the use of an appropriate tax planning opportunity to create taxable profit). Management's analysis of the debt security results in no impairment being realised at the balance sheet date as management expects to receive the full amount of the principle and interest related to the debt security. Because there has been no impairment of the debt security's expected cash flow, any current reported unrealised loss will reverse over time as the debt security approaches scheduled payment dates. In all cases of an available-for-sale debt security where fair value is less than original book basis or tax basis and no impairment has been realised, management's intent and ability to hold the debt security to recovery allows the entity to control the related cash inflows and outflows and control the timing and character of taxable income or loss. As such, to the extent that an entity expects to recover the unrealised losses on available-for-sale debt securities by holding the securities until maturity, the related deferred tax assets will reverse over time as the unrealised losses reverse. These entities view the deferred tax assets associated with unrealised losses on available-for-sale debt securities separately from other deferred tax assets. As a result, the entity in the example recognises a deferred tax asset of CU15 even when significant negative evidence (e.g. recent cumulative losses, etc.) exists related to the realisability of other deferred tax assets. These entities further note that future taxable income is not required to demonstrate realisation of the deferred tax asset when the debt security is held to recovery, as the specific deferred tax asset is expected to reverse through the mere passage of time.

The financial statement assertion of holding the debt security to recovery resulting in exclusion of the unrealised holding gains and losses from income in future periods is not consistent with the definition of deductible temporary difference in IAS 12[4]. That is, the deductible temporary difference exists only if management sells the debt security at the balance sheet date resulting in realisation of the unrealised loss. Asserting that the debt security will be recovered only at the value ascribed at the balance sheet date is in conflict with the assertion that no impairment exists at the balance sheet date as management intends to hold the security to recovery thereby avoiding the unrealised loss and related hypothetical deferred tax consequences. Management generally would not sell a debt security at a loss that is not considered impaired as the tax loss is only recovered through capital gains. Management has the intent and ability to hold the debt security to recovery avoiding realisation of the loss and also avoiding the related tax effects. Some that hold this view have argued that the deferred tax consequences related to these debt securities do not exist therefore. However, IAS 12.20 provides that the difference between the carrying amount of a revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset. This paragraph also rationalises that the future recovery of the carrying amount will result in a taxable flow of economic benefits to the entity and the amount that will be deductible for tax purposes will differ from the amount of those economic benefits. However, in the case of unrealised losses on debt securities for which management has the intent and ability to hold the available-for-sale debt security to recovery, the economic benefits that are expected to flow to the entity are unchanged by the unrealised loss. The unrealised loss will not affect profit or loss nor taxable income in the future. As an entity is required under IAS 12.20 to recognise the related deferred tax asset, it is only appropriate to assess the unrealised losses on the available-for-sale debt securities separate from other losses that require future generations of taxable income in order to be realised. This view is consistent with the guidance in U.S. GAAP, ASC 740-10-30-18, that states 'future realization of the tax benefit of an existing deductible temporary difference or carryforward ultimately depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) ….' This implies the necessity to assess different types of taxable losses (i.e., capital vs. ordinary losses) separately, for purposes of determining whether the deferred tax asset can be realised under U.S. GAAP. While the same words are not used in IAS 12, we understand from the results of the boards' convergence project that this was not identified as leading to a difference in the standards.

View 2:

Other entities, however, do not assess the recoverability of deferred tax assets related to unrealised losses on available-for-sale debt securities differently from other deferred tax assets. These entities regard IAS 12 par 29(b) solely as an interpretation of paragraph 27 of IAS 12, according to which an entity cannot recognise deferred tax

[4] deductible temporary difference results in amounts that are deductible in determining taxable profit (or loss) of future periods.

assets to the extent that there is significant evidence (e.g. cumulative losses in recent years) that the realisation of some or all of the entity's deferred tax assets is not probable. It is argued that IAS 12 does not disapply this normal or general restriction on recognition of assets to deferred tax assets that are bound to reverse. IAS 12.20 isn't an exception to this normal or general restriction on the recognition of deferred tax assets either. The first view instead would mean that all such deferred tax assets could be recognised not just those relating to available-for-sale debt securities. Moreover, the objective of IAS 12 is to account for the tax consequences of the future recovery of the 'carrying amount' of an asset. This must refer to the carrying amount at the reporting date, not the expected carrying amount at some future date. Those who hold this second point of view regard the extract from U.S. GAAP, ASC 740-10-30-18 quoted above as meaning simply that a probable future taxable profit used as the basis for recognising a deferred tax asset for a deductible temporary difference must arise within the same tax jurisdiction or regime as the deductible temporary difference. This reading is consistent with the guidance in paragraph 36(a) of IAS 12.

Current U.S. GAAP Practice:

We understand that the U.S. Securities and Exchange Commission (SEC) staff and the FASB have considered the accounting for deferred tax assets related to unrealised losses on available-for-sale debt securities.

On 18 February 2009, the FASB received a letter[5] from Fannie Mae and Freddie Mac making the Board aware of two views that can be held under U.S. GAAP for the realisation assessment of deferred tax assets related to temporary losses on available-for-sale debt securities.

- View A (discrete analysis) allows for a deferred tax asset related to unrealised losses on an available-for-sale debt security to be evaluated separately from other deferred tax assets when an entity intends to hold the security to recovery, which may be maturity. When a debt security is held to recovery or maturity, the unrealised loss will not result in a deductible amount in future years as the loss will reverse as the security approaches recovery or maturity. Additionally, with a debt security that is held to maturity, future taxable income is not required to demonstrate realisation of the related deferred tax asset.
- View B (aggregate analysis) provides that deferred tax assets related to unrealised losses on an available-for-sale debt security should be evaluated together with other deferred tax assets despite an intent to hold those debt securities to recovery or maturity. The realisation of deferred tax assets related to losses on available-for-sale debt securities are similar to all other deferred tax assets in that the valuation allowance generally cannot be avoided unless there is evidence that the benefit of the deferred tax asset will be realised as a result of

[5] Letter from Fannie Mae and Freddie Mac is available at http://www.fasb.org/jsp/FASB/CommentLetter_C/CommentLetterPage&cid=1218220137090&project_id=1600-DTU.

taxable income. It is not sufficient to project that the deductible temporary differences related to unrealised losses on available-for-sale debt securities will reverse. Additionally, while the ability and intent to hold these debt securities to recovery or maturity rather than selling the debt securities implies a source of income, this source of income cannot be viewed in isolation and must be considered in the context of all other sources of taxable income.

These views were discussed by Fannie Mae and Freddie Mac with the staff in the Office of the Chief Accountant of the SEC. As described in the letter, the SEC staff concluded that they would not object to the application of either view.

The accounting for deferred tax assets and liabilities on available-for-sale debt securities that are expected to be held to recovery and/or held to maturity was discussed by the EITF Agenda Committee in early 2009[6]. The issue was not added to the EITF agenda; however, the FASB added a project related to this matter to its agenda at the 12 February 2009 FASB Administrative meeting. The objective of the FASB project was to consider the accounting for deferred tax assets and liabilities on available-for-sale debt securities that are expected to be held to recovery. In particular the FASB intended to consider whether the assessment of a valuation allowance for a deferred tax asset related to the unrealised loss on an available-for-sale debt security that an entity expects to hold to recovery, which may be maturity, should be evaluated discretely or in the aggregate analysis as described in the letter from Fannie Mae and Freddie Mac. The FASB staff understands that diversity in practice in this area exists. On 14 October 2009, this project was removed from the FASB's agenda because the issues will be addressed within its project on accounting for financial instruments.

Reasons for the Committee to address the issue:

We have identified this significant divergence in practice in the interpretation of the requirements in IAS 12 par 29 and 30.

We believe the comparability and usefulness of IFRS financial statements would be improved by providing guidance on the interpretation of IAS 12 on this topic.

After the Board's decision to limit the scope of the income tax project that was taken at the November 2009 meeting and considering the items that have been discussed for this limited scope project so far, we are not aware of any current project undertaken by the Board that would address this issue. We believe the issue is narrow enough to be capable of interpretation within the confines of IFRSs and the Framework. We therefore ask the Committee to take this issue onto its agenda or to recommend improvements to the Board so as to avoid significant diversity in the practical application of IAS 12.

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[6] See Emerging Issue Task Force Agenda Report Descriptions and Decisions on Potential New Issue Discussion Dates: January 15, January 21, and February 12, 2009 at http://www.fasb.org/jsp/FASB/Page/0309REPORT.pdf.