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International Financial Reporting Standards Interpretations Committee
30 Cannon Street
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13 August 2010

Dear Interpretations Committee members

**IFRS Interpretations Committee ('Committee') work in progress – IAS 12 *Income Taxes* – Recognising deferred tax assets for unrealised losses on available-for-sale debt securities**

The global organisation of Ernst & Young is pleased to submit its comments on the above agenda item as published in the July 2010 IFRIC Update.

The IFRS Interpretations Committee was asked 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').' In the May 2010 IFRIC Update the Committee issued a Tentative Agenda Decision not to add this issue to its Agenda, noting that 'IAS 12 provides sufficient guidance on the recognition of deferred tax assets relating to AFS debt securities and that it does not expect diversity in practice.' After discussing the responses received on it, the following conclusions have been published in the July 2010 IFRIC Update:

> 'The Committee continued to support the intent of the views expressed in the tentative agenda decision in relation to the specific fact pattern presented to the Committee. However the Committee requested that the staff presented revised wording for the agenda decision at the next meeting, clarifying the situation addressed and the decisions made by the Committee.'

While we support the aim of the Committee to clarify the accounting for deferred tax assets for unrealised losses on available-for-sale debt securities, we are first of all concerned that the text of the July 2010 IFRIC Update does not accurately capture the Committee's conclusions on this agenda item. We understood from the discussion that the Committee did not ask the staff only to present revised wording for the agenda decision at the next meeting, but also to consider the possibility of including a clarification in IAS 12 via the Annual Improvements Process (AIP) rather than an Agenda Decision.

While deliberating both alternatives, we strongly recommend proceeding with a clarification in IAS 12 via the AIP. For the reasons set out in the Agenda Request we are not convinced IAS 12 provides sufficient guidance on this issue and recommend the Board should take the same steps the FASB proposed to take in providing guidance on this issue in the Exposure

Draft *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*. Likewise the staff acknowledged in paragraph 15 of Paper 6 presented to the Committee for the July 2010 meeting that the wording in IAS 12.30 could be clarified. Considering both approaches discussed by the Committee, we believe a clarification/amendment of the standard rather than an agenda decision is the better one to address the issue of recoverability of deferred tax assets, given the implications of this agenda decision, the need for due process and the current divergence in practice which we believe may have arisen because of the guidance under US GAAP prior to any clarification which may result from the FASB's further considerations. Please see also our comment letter on the previous Tentative Agenda Decision as of 15 June 2010.

In our view this issue is one of general principle – namely whether the expected future income and cash flows on a AFS debt security can be regarded as a source of future taxable profit to allow recognition of a deferred tax asset on that loss in which case it is not affected by whether or not the entity has other taxable profits as suggested by the IFRIC Interpretations Committee tentative agenda decision.

If the Committee nevertheless decides to proceed with the agenda decision on the current basis, we would suggest the Committee makes it absolutely clear in the final agenda decision what its position and its basis for that position is to avoid any further confusion, in particular on the following points:

- IAS 12 paragraph 30 describes tax planning opportunities as 'actions … to create or increase taxable income'. Does the Committee believe that the holding of an AFS security until maturity does not 'create taxable income' despite the fact that capital gains generally are taxed?

- Does the Committee believe that in the Objective of IAS 12, the reference to the 'recovery' of the carrying amount of an asset means recovery through consumption or disposal, not (in the more general sense) the recovery of a written-down asset through change in value?

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 (0)20 7951 3152.

Yours faithfully

Ernst & Young