STAFF PAPER

July 2015

IASB Meeting

IASB Sep 2011, Dec 2012, May and June 2014, June 2015| IFRS IC May-Nov 2010, Nov 2012, May 2013, Jan and Mar 2014, Mar 2015

Project	**Narrow-scope amendment: IAS 12 *Income Taxes*—Recognition of Deferred Tax Assets for Unrealised Losses**
Paper topic	Due process steps followed

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Objective

1. The objective of this paper is to set out the due process steps undertaken by the IASB in completing the narrow-scope project of *Recognition of Deferred Tax Assets for Unrealised Losses* (Amendments to IAS 12).

Structure of the paper

2. The structure of the paper is as follows:
   (a) summary of the amendments to IAS 12;
   (b) finalisation or re-exposure;
   (c) intention to dissent;
   (d) effective date;
   (e) confirmation of the due process steps; and
   (f) questions for the IASB.

Summary of the amendments to IAS 12

3. The IFRS Interpretations Committee (the ‘Interpretations Committee’) received a request to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

4. The issue had initially been considered as part of the Exposure Draft *Annual Improvements to IFRSs 2010-2012 Cycle* (ED/2012/1) which proposed to clarify that:

   (a) 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; and

   (b) taxable profit against which an entity assesses a deferred tax asset for recognition is the amount excluding any reversal of deductible temporary differences.

5. However, on the basis of the comment letters received, the IASB decided that a narrow-scope amendment would be required to address two additional issues:

   (a) whether an unrealised loss on a debt instrument gives rise to a deductible temporary difference when the holder expects to recover the carrying amount of the asset by holding it to maturity and collecting all the contractual cash flows; and

   (b) whether an entity can assume recovery of an asset for more than its carrying amount when estimating probable future taxable profits against which deductible temporary differences can be utilised.

6. The IASB observed that there is diversity in practice because of the uncertainty about the application of some of the principles in IAS 12 *Income Taxes*.

7. At its meeting in May 2014, the IASB agreed with the Interpretations Committee’s recommendation that the following aspects should be clarified in IAS 12, mainly by adding an illustrative example:

   (a) an unrealised loss on a debt instrument measured at fair value gives rise to a deductible temporary difference irrespective of the expected manner of recovery;

(b) an entity assesses the utilisation of deductible temporary differences related to unrealised losses on debt instruments measured at fair value in combination with other deductible temporary differences;

(c) an entity's estimate of future taxable profit includes amounts from recovering assets for more than their carrying amounts; and

(d) an entity's estimate of future taxable profit excludes tax deductions resulting from the reversal of deductible temporary differences.

8. However, the IASB decided that the items in paragraph 7 (a)–(c) should also be addressed by amending the mandatory guidance in IAS 12, in addition to providing an illustrative example. The IASB also proposed to require limited retrospective application of the proposed amendments for entities already applying IFRS, to avoid undue cost and effort.

9. At its meeting in June 2014, the IASB reviewed the due process steps taken in developing an Exposure Draft on this issue and agreed that the staff could commence the balloting process.[1] The Exposure Draft was published in August 2014.

10. At its meeting in June 2015, the IASB was presented with a summary and an analysis of the 68 comment letters received on the Exposure Draft as well as the recommendations from the Interpretations Committee.[2]

11. The IASB decided that it should proceed with finalising the proposed amendments, subject to some revisions to the proposed wording as follows:

(a) revise the example illustrating paragraph 26(d) to clarify that the debt instrument is measured at fair value and remove information that is superfluous to the objective of the example, and add an explanation about the identification of the tax base in paragraph BC6;

(b) clarify the transition requirements;

[1] Refer to Agenda paper 12D(ii) of the IASB's June 2014 meeting, which was also submitted to the Trustees' Due Process Oversight Committee (DPOC).

[2] Refer to Agenda Paper 12B of the IASB's June 2015 meeting.

(c) revise the proposed guidance relating to the recovery of an asset for more than its carrying amount in a way that enhances understanding and reduces the risk of an arbitrary estimate of probable future taxable profit;

(d) clarify that 'taxable profit excluding tax deductions' used for assessing the utilisation of deductible temporary differences is different from 'taxable profit on which income taxes are payable'; and

(e) shorten Illustrative Example 7 and amend it to be consistent with the guidance in paragraph 63 on the allocation of deferred tax between profit or loss and other comprehensive income.

Finalisation or re-exposure

12. Paragraph 6.25 of the IFRS Foundation *Due Process Handbook* (February 2013) specifies the criteria by which the IASB assesses whether the proposals can be finalised or whether they should be re-exposed.

13. In considering whether there is a need for re-exposure, the IASB:

(a) identifies substantial issues that emerged during the comment period on the Exposure Draft and that it had not previously considered;

(b) assesses the evidence that it has considered;

(c) determines whether it has sufficiently understood the issues, implications and likely effects of the new requirements and actively sought the views of interested parties; and

(d) considers whether the various viewpoints were appropriately aired in the Exposure Draft and adequately discussed and reviewed in the Basis for Conclusions.

14. From the comment letters on the Exposure Draft, most respondents broadly supported the proposals. We think that the IASB's changes to the proposed amendments to IAS 12 (as described in the paragraph 11) are not fundamental and respond to the feedback received. Consequently, we think that, on the basis of the re-exposure criteria in

paragraphs 6.25–6.29 of the *Due Process Handbook*, the proposed amendments to IAS 12 should be finalised without re-exposure.

Intention to dissent

15. We note that when the IASB members voted on the finalisation of the proposed amendments to IAS 12 in June 2015, no IASB members voted against it. However, we are required to formally ask whether any IASB members intend to dissent to the final amendments before we ballot.

Effective date

16. Paragraph 6.35 of the *Due Process Handbook* requires that the mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying IFRS have sufficient time to prepare for the new requirements.

17. We expect to issue the final amendments to IAS 12 in Q4 of 2015. The amendments to IAS 12 are narrow in scope. In addition, these amendments would apply retrospectively, with the exception of the amounts that would have to be restated within equity in the opening statement of financial position, on or after the effective date. Furthermore, reducing significant diversity in practice on a timely basis is one of the main purposes of these amendments.

18. Consequently, we propose that the mandatory effective date for the amendments is annual periods beginning on or after 1 January 2017. We also propose that early application for the amendments is permitted.

Confirmation of the due process steps

19. In **Appendix A** of this paper we have summarised the due process steps that we have taken since publishing the Exposure Draft. In summarising these steps, and thereby demonstrating that the IASB has met all the due process requirements to date, we used

the reporting template 'Finalisation of a Standard, Practice Guidance or Conceptual Framework chapter' from the Due Process Protocol.

20. We note that the required due process steps applicable so far at this stage have been completed. We think that the completion of these steps support the publication of the final amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*.

Questions for the IASB

1. Do the IASB members agree that the proposed amendments to IAS 12 should be finalised without re-exposure?
2. Do any IASB members intend to dissent to the final amendments?
3. Do IASB members agree with 1 January 2017 as the mandatory effective date for the final amendments?
4. Are IASB members satisfied that all due process steps required to date that relate to the publication of the final amendments have been complied with?

Appendix A—Confirmation of due process steps followed in the finalisation of a Standard

A1. The following table sets out the due process steps followed by the IASB that are required for the publication of the final amendments to IAS 12.

Step	*Required/optional*	*Actions*
Consideration of information gathered during consultation		
The IASB posts all of the comment letters that are received in relation to the Exposure Draft on the project pages.	Required if request issued	All comment letters that the IASB has received (68 comment letters) on the Exposure Draft were posted on the project webpages.
Round-table meetings between external participants and members of the IASB.	Optional	Not applicable.
IASB meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	Required	The comment letter analysis prepared by the staff was discussed by the Interpretations Committee in its March 2015 meeting on the basis of a publicly available Staff Paper. The IASB discussed the comment letter analysis and the feedback from the Interpretations Committee at its June 2015 meeting (see Staff Papers 12B, 12B(i)). It tentatively decided to finalise the proposed amendments to IAS 12. The project webpage was updated by the staff after every Interpretations Committee or IASB meeting. The results of the discussions of the Interpretations Committee and the IASB are also summarised in the *IFRIC Update* and the *IASB Update* for each meeting.
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	Required	Because of the narrow scope and the expected limited consequences of the amendment (ie it is not a major amendment) an effect analysis is not prepared. However, the consequences of the narrow-scope amendment have been considered as part of the IASB's and the Interpretations Committee's discussions. The likely effects of the amendment are the following: • clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value; and • reduce divergence in practice.
Email alerts are issued to registered recipients.	Optional	Not applicable.
Outreach meetings to promote debate and hear views on proposals that are published for public comment.	Optional	Not applicable.

Step	***Required/optional***	***Actions***
Regional discussion forums are organised with national standard-setters and the IASB.	Optional	Not applicable.
Finalisation		
Due process steps are reviewed by the IASB.	Required	This step will be met by this Staff Paper.
Need for re-exposure of a Standard is considered.	Required	Analysis of the need to re-expose is included in the main body of this Staff Paper.
The IASB sets an effective date for the Standard, considering the need for effective implementation, generally providing at least one year.	Required	Analysis of the effective date is included in the main body of this Staff Paper.
Drafting		
Drafting quality assurance steps are adequate.	Required	The Translations team will review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Required	The XBRL team will review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Optional	The Editorial team will review the drafts during the ballot process. We will perform an editorial review of the pre-ballot draft with external parties. The pre-ballot draft will be made available to members of the International Forum of Accounting Standard Setters (IFASS).
Publication		
Press release to announce the final Standard.	Required	A press release will be published with the final amendments and made available to the Due Process Oversight Committee (DPOC) together with a summary of the media coverage.

Step	***Required/optional***	***Actions***
A Feedback Statement is provided, which provides high level executive summaries of the Standard and explains how the IASB has responded to the comments received.	Required	A Feedback Statement is not needed because the amendments are narrow in scope (ie it is not a major amendment).
Podcast to provide interested parties with high level updates or other useful information about the Standard.	Optional	Not applicable.
Standard is published.	Required	Final amendments will be made available on eIFRS on the publication date. The DPOC will be informed of the official release.