



Association pour la participation des
entreprises françaises à l'harmonisation
comptable internationale



IASB

30 Cannon Street

London EC4M 6XH

UK

Paris, December 11, 2014

Dear Mr Hoogervorst,

Re: ED /2014/3 Recognition of Deferred Tax Assets for Unrealised Losses

We are pleased to respond to this exposure draft as we believe it has the merit of clarifying some areas of the standard which are not clearly understood and avoiding some divergence in implementation

If you have any questions or a need for further information, please do not hesitate to contact us.

Yours sincerely,

ACTEO

Patrice MARTEAU
Chairman

AFEP

François SOULMAGNON
Director General

MEDEF

Agnès LEPINAY
Director of economic
and financial affairs

Question 1—Existence of a deductible temporary difference

The IASB proposes to confirm that decreases in the carrying amount of a fixed-rate debt instrument for which the principal is paid on maturity give rise to a deductible temporary difference if this debt instrument is measured at fair value and if its tax base remains at cost. This applies irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, ie by holding it to maturity, or whether it is probable that the issuer will pay all the contractual cash flows.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

We agree that applying the current IAS 12 principles leads one to identify a temporary difference, as soon as the carrying amount is different from the tax base. The way the entity expects to use the asset should be considered only when determining the tax base and the applicable rate.

Question 2—Recovering an asset for more than its carrying amount

The IASB proposes to clarify the extent to which an entity's estimate of future taxable profit (paragraph 29) includes amounts from recovering assets for more than their carrying amounts.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

We welcome the overall clarification as we acknowledge that some entities may have restricted their future taxable profit. However we believe that the proposed paragraph may be improved by:

- Incorporating the rationale developed in BC 12 which clearly specifies that determining temporary differences and estimating probable future taxable profit are two separate steps
- Removing the presumptions concerning the probability of recovering an asset for more than its carrying value.

Even if (as also mentioned in BC 12) "the carrying amount of an item is relevant only for the first step", we acknowledge that entities should nevertheless maintain consistency between the assumptions underlying the carrying amount and the future "recoverable amount". We believe that this is why the IASB has specified at the end of the paragraph 29A that "recovery of an asset for more than its carrying amount is unlikely to be probable, if for example, it was recently impaired". It has even added in BC 15 that it is also improbable for assets measured at fair value. However, we believe that the standard should remain principle based and the IASB should avoid any unnecessary presumptions. In any case, we do not agree with these assertions. Actually, we believe that an asset measured at its fair value may subsequently be recovered for more than its carrying amount (a debt instrument at fair value is one of a good example of this). We also believe that the Board should not refer to the notion of "an asset that was recently impaired" as it may cover different economic realities according to different standards (systematic future impairment on trade receivables will not reflect the same economic reality as impairment of an intangible asset for example).

- Reestablishing symmetry with liabilities by stating that they can also be settled for a value different from (less than) their carrying amount.

Question 3—Probable future taxable profit against which deductible temporary differences are assessed for utilisation

The IASB proposes to clarify that an entity's estimate of future taxable profit (paragraph 29) excludes tax deductions resulting from the reversal of deductible temporary differences.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

While we agree with this welcome clarification, we believe that the Board should perhaps go further by clarifying the meaning of "probable future taxable profit" as the way the definition in paragraph 5 is used may be misleading and source of confusion. Actually, the future taxable profit against which deductible temporary differences are assessed (C.f. paragraph 29 (a) (i)) is not merely the expected tax result upon which income taxes are effectively payable and which appears in the tax return. Therefore, we recommend the addition of a definition in paragraph 5, which could be "Adjusted taxable profit (tax loss) is the taxable profit (tax loss) that excludes tax effects resulting from the reversal of existing temporary differences". This new term may then be used instead of "future taxable profit" when required in the Standard for the recognition of deferred tax assets.

In the same way, the Board should also clarify the meaning of "tax deductions" which are not always the deductions that can be found on the tax return but the deductions that reconcile the IFRS income with taxable income.

Question 4—Combined versus separate assessment

The IASB proposes to clarify that 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. If tax law restricts the utilisation of tax losses so that an entity can only deduct tax losses against income of a specified type or specified types (eg if it can deduct capital losses only against capital gains), the entity must still assess a deferred tax asset in combination with other deferred tax assets, but only with deferred tax assets of the appropriate type.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

We welcome and agree with this clarification.

Question 5—Transition

The IASB proposes to require limited retrospective application of the proposed amendments for entities already applying IFRS. This is so that restatements of the opening retained earnings or other components of equity of the earliest comparative period presented should be allowed but not be required. Full retrospective application would be required for first-time adopters of IFRS.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

We are not sure that we understand the relief proposed for the opening retained earnings or other components of equity for the earliest comparative period presented. Does this just mean that there is not a mandatory requirement for allocating the restated deferred tax asset between OCI and retained earnings? If that is the Board's intention, it should be better explained or illustrated.

Other comments

Because the Board has wished to provide a very exhaustive example, it concludes with the allocation step. However, we believe that the only thing to do here is to refer to the overall principle developed in paragraph 63 without concluding on the appropriate method in this specific case. Actually, allocation was not the issue that the Board had to address and the tentative conclusion has not been discussed. The conclusion proposed in IE 43 might suggest that entities should systematically use a pro rata method without exercising their judgment for maybe a more appropriate allocation. It would be helpful, therefore to also refer to the last phrase of paragraph 63 in this case, i.e. “or other method that achieves a more appropriate allocation in the circumstances”.