



Australian Government
Australian Accounting Standards Board

Memorandum

To:	AASB members	Date:	2 December 2014
From:	Evelyn Ling	Agenda Item:	21.1 (M142)
Subject:	Recognition of Deferred Tax Assets for Unrealised Losses	File:	

Action

Receive an update on ED 253 *Recognition of Deferred Tax Assets for Unrealised Losses*.

Attachments

Agenda Paper 21.2 Submission on ED 253 from CPA Australia
Agenda Paper 21.3 ED 253 *Recognition of Deferred Tax Assets for Unrealised Losses*
(incorporating IASB ED/2014/3 of the same name)

Overview

At its meeting in October 2014, the Board discussed IASB Exposure Draft ED/2014/3 *Recognition of Deferred Tax Assets for Unrealised Losses* and formed its tentative views on the key comments to make in its submission to the IASB, subject to feedback to be received from constituents.

The comment period on ED 253 closed 20 November 2014. As at the time of writing one (1) submission (CPA Australia) was received (see Agenda Paper 21.2). Staff will provide details of any further comment letters received at the Board meeting.

Summary of the Board's views on IASB ED/2014/3

At its October 2014 meeting, the Board tentatively decided to:

- express general agreement with the underlying basis for the proposed amendments to IAS 12 *Income Taxes*;
- include a general comment in the submission that various aspects of IAS 12, including those relating to the recognition of deferred tax assets for unrealised losses, would benefit from a limited review focussing on clarifying and improving the principles underpinning IAS 12, rather than piecemeal amendments addressing specific practice issues;
- express disagreement with the proposed transitional provisions, which would permit, but not require, entities to restate the opening retained earnings (or other component of equity, as appropriate) of the earliest comparative period presented. The Board would prefer the IASB require limited retrospective application by requiring the current period's opening balance sheet to be restated for assets and liabilities existing on the date of initial application of the proposed amendments, including any adjustments within equity on that date;

- raise a comment as to whether the Illustrative Example could be more succinctly articulated; and

Feedback from comment letter received

Given the small number of submissions and the nature of the comments made, staff have not prepared a formal collation of comments.

The comment letter received from CPA Australia:

- generally supports the proposed amendments to IAS 12 and their incorporation into AASB 112;
- recommends the IASB undertake a narrow review focused on clarifying and improving the principles behind IAS 12;
- disagrees with the proposal to permit but not require limited retrospective application of the proposed amendments for entities already applying IFRS. In contrast to the tentative Board decision, CPA Australia recommends full retrospective application of the proposed amendments for reason that the IASB ED has not made a case for impracticality or undue cost and effort to support departure from full retrospective restatement;
- did not identify any regulatory or other issues arising in the Australian environment that may affect the implementation of the proposals.

Staff recommendation in relation to IASB ED/2014/3 proposed transitional provisions

Paragraph BC24 to IASB ED/2014/3 explains that restatement of opening retained earnings (or another component of equity) of the earliest period presented is allowed, but not required, to avoid undue cost and effort.

Staff **agree** with the tentative Board decision to disagree with the proposed transitional provisions that permit, but do not require, restatement of opening retained earnings (or other component of equity, as appropriate) of the earliest comparative period presented.

However, on reflection, considering the CPA comment letter and Board member comments at the October 2014 meeting about the potential confusion for users and preparers arising as a consequence of the IASB adopting different transitional methodologies across different pronouncements, staff now think that the AASB submission should:

- first recommend that the amendments apply retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. That is, full retrospective application should be required unless it is impractical to do so;
- recommend that if the IASB proceeds with allowing limited retrospective application of the amendments arising from its concern that the amendments may give rise to undue cost and effort, it should require all entities to apply the relief in the same manner, for example, by requiring opening balance sheet adjustments to assets and liabilities existing on the date of initial application of the proposed amendments, including any adjustments within equity on that date.

Question to Board Members

Q1 Do Board members agree with the staff recommendation above?

Finalisation of AASB submission

The comment period on IASB ED/2014/3 closes 18 December 2014. As agreed by the Board at its October 2014 meeting, staff are finalising the AASB submission to the IASB on IASB ED/2014/3 out-of-session via the Chair.