Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@aasb.gov.au

8 February 2016

Dear Kris

Re: AASB ITC 33, IFRS IC DI/2015/1 and DI/2015/2

I am enclosing a copy of PricewaterhouseCooopers' responses to the following International Accounting Standards Board's (IASB) and IFRS Interpretation Committee (IFRS IC) exposure drafts:

- AASB ITC 33 *Request for Comment on IASB's Request for Views on 2015 Agenda Consultation*
- IFRIC Interpretation DI/20125/1 *Uncertainty over Income Tax Treatments*
- IFRIC Interpretation DI/2015/2 *Foreign Currency Transactions and Advance Consideration*

The letters reflect the views of the PricewaterhouseCoopers (PwC) network of firms and as such include our own comments on the matters raised in the exposure drafts. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (03) 8603 5371 if you would like to discuss our comments further.

Yours sincerely,

Margot Le Bars.

Margot Le Bars
Partner, PricewaterhouseCoopers

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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

19 January 2016

RE: Draft IFRIC Interpretation DI/2015/1 – Uncertainty over Income Tax Treatments

We are pleased to respond to the invitation to comment on the Draft IFRIC Interpretation – 'Uncertainty over Income Tax Treatments' (the 'draft Interpretation'), on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those member firms that commented on the draft Interpretation.

'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the draft Interpretation. We agree that there is diversity in practice caused, in part, by the absence of specific guidance in IAS 12 around the accounting for uncertain tax treatments. The proposed interpretation will clarify the guidance, promote consistency in several areas and provide information that is useful to the users of financial statements.

We agree that the accounting effect of uncertain tax treatments should be determined on the basis of whether or not it is probable that a taxation authority will accept that treatment. This is consistent with the requirements of IAS 12 and with other aspects of the IFRS accounting framework. We also agree judgement is required to determine the unit of account for uncertain tax treatments. We agree with the proposed measurement method, which will provide clarity about how to apply the guidance in IAS 12.

We suggest that the transition provisions be reconsidered. The accounting for income tax uncertainties is judgemental, which makes it difficult to avoid the use of hindsight if an entity is required to reconsider judgements made in previous years. The Interpretation should therefore prohibit retrospective application.

Our answers to the specific questions in the draft Interpretation provide more detail on the views expressed above and are included in the Appendix.

If you have any questions in relation to this letter please do not hesitate to contact Paul Fitzsimon, PwC Global Chief Accountant (+1 416 869 2322).

Yours faithfully,

PricewaterhouseCoopers

PricewaterhouseCoopers

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APPENDIX A

Question 1 – Scope of the draft Interpretation

The draft Interpretation provides guidance on accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. Such uncertain tax treatments may affect taxable profit (tax loss), tax bases, tax credits or tax rates that are used to recognise and measure current or deferred tax liabilities or assets in accordance with IAS 12 Income Taxes.

Do you agree with the proposed scope of the draft Interpretation? If not, why and what alternative do you propose?

We agree tax uncertainties could affect the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and will affect both current and deferred taxes. We therefore agree with the proposed scope of the draft Interpretation.

Question 2 – When and how the effect of uncertainty over income tax treatments should be included in determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates

The draft Interpretation requires an entity to consider whether it is probable that a taxation authority will accept an uncertain tax treatment, or group of uncertain tax treatments, that it used or plans to use in its income tax filings.

If the entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the draft Interpretation requires the entity to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings.

If the entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, the draft Interpretation requires the entity to use the most likely amount or the expected value in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The method used should be the method that the entity concludes will provide the better prediction of the resolution of uncertainty.

Do you agree with the proposal in the draft Interpretation on when and how the effect of uncertainty should be included in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates? If not, why and what alternative do you propose?

<u>Recognition:</u>
We agree that the accounting effect of uncertain tax treatments should be determined on the basis of whether or not it is probable that a taxation authority will accept that treatment. This is consistent with the approach required by IAS 12 and with other aspects of the IFRS accounting framework. The proposal should reduce the diversity in practice that arises from a perceived conflict between IAS 12 and IAS 37 in connection with an uncertainty relating to a tax asset, the existence of which is uncertain.

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Measurement:
We agree that a tax uncertainty should be measured using the most likely amount or the expected value method, depending on the method that will provide the better prediction of the resolution of the uncertainty. This is an area in which there is currently diversity in practice. Judgement will be required to determine which approach should be used in each situation. This proposed measurement approach is consistent with the requirements of IAS 12 paragraphs 46 and 47.

The draft Interpretation provides further guidance on measurement in three illustrative examples. Example 3 refers to amounts reported to the taxation authorities in the tax returns. The preparation and filing of tax returns is not the subject of the draft Interpretation. We suggest that the guidance is modified to be clear that it addresses only the accounting for tax uncertainties and not the preparation of tax returns. Example 3 should be revised.

The draft Interpretation uses "separately" and "independently" interchangeably in the illustrative examples and the basis for conclusions. We suggest that only "separately" is used, consistent with the draft Interpretation section.

Question 3 – Whether uncertain tax treatments should be considered collectively

The draft Interpretation requires an entity to use judgement to determine whether each uncertain tax treatment should be considered independently, or whether some uncertain tax treatments should be considered together, in order to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.

Do you agree with the proposal in the draft Interpretation on the determination of whether uncertain tax treatments should be considered collectively? If not, why and what alternative do you propose?

We agree with the proposal that uncertain tax treatments should be considered separately or collectively, depending on which approach provides a better prediction of the resolution of the uncertainty. This is an area in which there is currently diversity in practice. We note that the unit of account should reflect the substance of the circumstances in each case and that the range of different situations that arise in practice means that some diversity will always exist.

The proposals will require an entity to consider how the treatments are supported and viewed by the preparer and taxation authority. This will provide a framework for assessing the unit of account. We note that there are some jurisdictions in which a taxpayer is able to negotiate with the tax authority a settlement that combines different uncertainties in a way that does not necessarily reflect a strict application of the tax law. We suggest that the Committee considers whether an entity should be able to take into account this potential negotiation when determining the unit of account and, if so, whether this is consistent with the requirement in IAS 12 to recognise tax treatments based on the tax law.

Question 4 – Assumptions for taxation authorities' examinations and the effect of changes in facts and circumstances

The draft Interpretation requires an entity to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when making those examinations.

The draft Interpretation also requires an entity to reassess its judgements and estimates if facts and circumstances change. For example, if an entity concludes that new information indicates that it is no longer probable that the taxation authority will accept an uncertain tax treatment, the entity should reflect this change in its accounting. The expiry of the period in which the taxation authority may examine the amounts reported to it would also be an example of a change in circumstances.

Do you agree with the proposal in the draft Interpretation on the assumptions for taxation authorities' examinations and on the changes in facts and circumstances? If not, why and what alternative do you propose?

We agree that an entity should assume that the taxation authorities will have full knowledge of all relevant information when making its assessment. This is consistent with the requirements in IAS 12 that tax treatments be recognised based on the tax law. We also agree that judgement should be applied to reassess the treatment if there is a change in circumstances.

Paragraph 18 of the draft Interpretation states that a change in circumstances should be reflected in the period in which the change happens. It is not clear how this statement interacts with the guidance in IAS 10 and may therefore lead to diversity in practice. We suggest that the Committee clarifies that changes in circumstances after the reporting date should be considered in the context of IAS 10 to determine whether such changes would be adjusting or non-adjusting events.

The draft Interpretation explains in Appendix A that there is potentially different accounting when a taxation authority explicitly or implicitly accepts an entity's tax treatment. It is not clear why the accounting treatment should be revisited because a tax treatment has been accepted implicitly where a taxation authority is still able to revisit a tax return. The impact of an implicit or explicit acceptance by a tax authority may vary across jurisdictions, based on local tax law. We suggest that the guidance in paragraphs A5 and A6 be revised to state that the impact of results of examinations by tax authorities on similar tax treatments should be considered in light of local laws. Implicit acceptance of a tax treatment is not sufficient by itself to support a change in the accounting for that treatment if the tax authority is still able to revisit the tax return.

Question 5 – Other proposals

Disclosure

The draft Interpretation does not introduce any new disclosure requirements, but highlights the relevance of the existing disclosure requirements in paragraphs 122 and 125-129 of IAS 1 Presentation of Financial Statements, paragraph 88 of IAS 12 and IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Transition

The draft Interpretation requires an entity to apply its requirements by recognising the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do that without using hindsight.

Do you agree with the proposals in the draft Interpretation on the disclosure and the transition requirement? If not, why and what alternative do you propose?

Disclosure:
We agree that additional disclosure requirements are not necessary. However, it is potentially confusing to include a reference to disclosures when the draft Interpretation does not propose changes. We therefore for suggest that the reference to disclosures in the draft Interpretation is deleted.

If the references to disclosures are retained, we recommend that the reference should only be to IAS 12 paragraph 88 and not directly to IAS 37 to avoid confusion over which standard should be applied. We also suggest that the Committee clarifies the disclosure requirement for contingent assets. The draft Interpretation requires that uncertain tax assets are recognised if it is probable that the treatment will be accepted. However, IAS 37 requires that contingent assets for which recovery is probable are disclosed but not recognised. The proposal therefore requires that assets relating to tax uncertainties for which recovery is probable would be recognised under IAS 12 and also disclosed separately under IAS 12 and IAS 37. We recommend that if the reference to IAS37 is retained, it is clarified to confirm that the disclosure of contingent tax assets is required for possible (not probable) inflows of economic benefits.

Transition:
We agree with the transition proposal described in paragraph B2(a) that permits a prospective application from the start of the reporting period in which an entity first applies the Interpretation, without adjusting comparative information. We do not agree that entities should be permitted to apply full retrospective adoption by adjusting comparative information. The judgemental nature of the accounting for income tax uncertainties makes it difficult to avoid the use of hindsight if an entity is required to reconsider judgements in previous years.

We further suggest that the Committee considers the interaction of these proposals with IFRS 1. We recommend that the transition approach explained in paragraph B2(a) be applied to first time IFRS adopters.

Other comments

Discussion of accounting for interest and penalties:
Paragraph BC9 states that the draft Interpretation does not address the accounting for interest and penalties because there is no current evidence of significant diversity in practice. We agree that this issue should not be addressed by this Interpretation. However, our experience is that there is diversity in practice and we therefore suggest that the basis for conclusions is amended.