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Berlin, 1 November 2010

Dear David,

Exposure Draft ED/2010/11 Deferred Tax: Recovery of Underlying Assets - proposed amendments to IAS 12

On behalf of the German Accounting Standards Board (GASB), I am writing to comment on the Exposure Draft ED/2010/11 Deferred Tax: Recovery of Underlying Assets - proposed amendments to IAS 12. We appreciate the opportunity to comment on this Exposure Draft.

We agree that the existing IAS 12 lacks guidance on the accounting for income taxes in relation to assets for which differing tax consequences arise depending on the mode of recovering the carrying amount.

However, we do not consider using an exception to the measurement principles in IAS 12 to be appropriate because we are generally in favour of principle-based standards. We do not believe that the proposed exception provides any additional or more relevant information for users than can be achieved through application guidance on the measurement principle. We understand that determining the way in which the carrying amount of specified assets, in particular investment property, is recovered can be complex and is often subject to a certain degree of judgement, as it may not be clear in advance how much of the investment property is recovered through use, e.g. rentals, and how much through sale. Application guidance would enable entities to apply the principles in IAS 12 in a consistent manner and thereby enhance the comparability of information.

Moreover, the proposed exception would apply when an entity adopts the accounting policy of remeasuring or revaluing specific underlying assets to fair value. In particu-

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lar, the Board proposes that the exception should apply when deferred taxes arise either from investment property measured at fair value or from property, plant, equipment and intangible assets revalued at fair value. However, the Board does not propose that the exception should apply to items carried 'at cost' subsequent to being remeasured to fair value in a business combination. To our understanding, the difficulty of determining the likely mode of recovery does not hinge on types of assets or measurement principles. Only in the rare circumstances in which determining the likely mode of recovery is not possible would we agree with requiring measuring deferred taxes under the rebuttable presumption that the tax consequences reflect recovering the carrying amount of the asset entirely through sale. If the Board were to develop application guidance rather than create an exception to the principles, it would be unnecessary to define the scope of the amendment by referring to the type of underlying asset.

For these reasons we do not support the current proposal to introduce an exception to the measurement principles in IAS 12; instead, we would encourage the Board to develop application guidance for measuring deferred taxes in which the issues outlined above are addressed.

Furthermore we believe that the issue the ED tries to tackle is yet another indicator that a fundamental review of accounting for income taxes is needed in due course.

If you would like to discuss our comments further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President