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Accounting Standards Committee of Germany
IFRS-Fachausschuss

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Mr Hans Hoogervorst
Chairman of the
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Berlin, 21. November 2014

Dear Hans,

IASB Exposure Draft ED/2014/3 *Recognition of Deferred Tax Assets for Unrealised Losses – Proposed amendments to IAS 12*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB Exposure Draft ED/2014/3 *Recognition of Deferred Tax Assets for Unrealised Losses – Proposed amendments to IAS 12* (herein referred to as the 'ED'). We appreciate the opportunity to comment on the ED.

In general, we are supportive of the amendments proposed to IAS 12. Since there seems to be diversity in practice regarding some issues that IAS 12 does not address directly we welcome the IASB's aim to clarify those specific questions.

Nonetheless, we would like to propose some general changes regarding the following points:

- The proposed amendments are currently subject to the application of IAS 39 rather than IFRS 9. We therefore recommend adapting the wording of the amendments in order to make them applicable to both IAS 39 and IFRS 9.
- We would further like to suggest including simpler examples to illustrate the amendments. The example illustrating paragraph 26(d) could be improved by highlighting the key facts. In addition, we believe the Illustrative Example 7 should be shortened and focus on the main issues that the amendments deal with.

We would like to refer to the appendix which includes our responses to the questions raised in the ED. If you would like to discuss our comments further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President

Appendix – Answers to the questions of the Exposure Draft

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 generally support the example illustrating paragraph 26(d) 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. However, we believe that the example should focus on both IAS 39 and IFRS 9 measurement. Given that under IFRS 9 the entity has to choose between hold or sell and the entity is going to hold the debt instrument until maturity, the measurement base would be at cost. Thus, there would be no deferred tax asset when the tax base is the original cost, too. While we agree with the proposed amendments we think that Question 1 refers to a situation that would no longer exist under IFRS 9. Therefore, we would like to propose amending the text to have both IAS 39 and IFRS 9 issues included. The wording needs to be amended to encompass FV-OCI. We further would like to note that the example could be improved by highlighting the key facts.

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 agree with the proposal that the extent to which an entity's estimate of future taxable profit includes amounts from recovering assets for more than their carrying amounts. Nevertheless we propose deleting the last sentence of paragraph 29A. We believe that an asset measured at cost is not an adequate example for a probable recovery of an asset for more than its carrying amount. We think that the consideration of all relevant facts and circumstances and the example for when recovery of an asset for more than its carrying amount is unlikely to be probable (recently impaired asset) is sufficient enough to establish the principle.

Furthermore, we consider it meaningful to extend the example illustrating paragraph 26(d) to include examples of recovering an asset for more than its carrying amount (Question 2) as well as of estimating future taxable profit (Question 3). The Probability that the assets of the entity will be recovered for more than their carrying amount depends on the intention whether to hold investments until maturity or not. Depending on how the entity is assessing the recovery of the assets, there are different valuation situations. In our view it could be helpful to illustrate this within the example, too.

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?

We agree with the proposed amendment.

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 acknowledge the clarification 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. However, we do not believe that an amendment as extensive as proposed is necessary. We consider it sufficient to extend paragraph 27 by a sentence that explains the consideration of different sources of taxable profits instead of adding a new paragraph 27A. The principle is anchored in paragraph 27 anyway. We consider the amendments to be meaningful but they should not lead to a more complex standard.

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 do not fully agree with the proposed transition requirements as we prefer a full retrospective application for all entities regardless of applying IFRS for the first time or not. In our view, requiring a limited retrospective application of the proposed amendments for entities already applying IFRS is not appropriate as those entities are capable of a full retrospective application. Regarding first-time adopters we support the IASB's view to require a retrospective application of the amendments in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

Additional comments

While we acknowledge the aim to illustrate the proposed amendments within the *Illustrative Example 7*, we believe the example should be much shorter. The focus should be on the main amendments and not be excessive. Having such a detailed example might prevent the reader to understand the key facts. We therefore recommend shortening the example and focussing on the amendments proposed.