Grupo Latinoamericano de Emisores de Normas de Información Financiera

Group of Latin-american Accounting Standard Setters

December 18th, 2014

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

RE: Invitation to comment on the Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

Dear Board Members,

The "Group of Latin-American Accounting Standard Setters" -GLASS[1]- welcomes the opportunity to issue comments related to the Recognition of Deferred Tax Assets for Unrealised Losses (Amendments proposed to IAS 12).

This response summarizes the perspectives shared by our country members, as per the following due process.

Due process

The discussions related to the invitation to comment were held within a specific technical work group. All country members had the opportunity to assign at least one representative for this work group.

Individual answers from each country were summarized by its corresponding country representative. In a second phase, the answers that were presented in the summary for each country were compared and discussed before preparing a consensus answer.

[1] The general objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions in respect to all documents issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Chairman), Bolivia, Brazil (Board), Chile, Colombia (Board), Costa Rica, Ecuador, El Salvador, Guatemala (Board), Honduras, Mexico (Vice Chairman), Panama, Paraguay, Peru, Dominican Republic, Uruguay (Board) and Venezuela (Board);

General comments

Almost all countries from Latin America have recently adopted or are in the process of adopting Full IFRS; that is why in our global answer we gave priority to comments and opinions received from preparers, users and other parties directly involved of affected by the application of IAS 12.

Should you have any questions regarding our comments, please do not hesitate to contact us at glenif@glenif.org.

Best regards,

Jorge Gil
President
Group of Latin-American Accounting Standard Setters (GLASS)

Comment letter to IASB on Exposure Draft ED/2014/3
Recognition of Deferred Tax Assets for Unrealised Losses
Amendments proposed to IAS 12

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, i.e. by holding it to maturity, or whether it is probable that the issuer will pay all the contractual cash flows.

Question 1— Do you agree with the proposed amendment?

We agree.

Question 2— Why or why not?

The loss due to decreases in the carrying amount of a fixed-rate debt instrument for which principal is paid on maturity gives rise to a deductible temporary difference that should be recognized, irrespective of the fact that the resulting temporary differences may be reversed in the future as a consequence of holding the instrument to maturity.

Thus, even though for tax purposes when the investment is not transferred before is maturity, the recoverable amount is the same as the carrying amount of the investment at the debt instrument's maturity, such circumstance does not eliminate the temporary difference because the accounting income flow differs from the amount subject to tax in each accounting period.

If the instrument is transferred before its maturity, the taxable profit or loss is determined based on the instrument's tax base, while accounting-wise it is determined based on the carrying amount, so through this difference would be recovered the deductible temporary difference recognized when the instrument's fair value has decreased due to the increase of the market's interest rate.

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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.

Question 1— Do you agree with the proposed amendment?

We agree.

Question 2— Why or why not?

The recovery of an asset for more than its carrying amount may generate an expectation of a higher or lower taxable profit, and it is in that sense that we understand the amendment. Indeed, the recovery of an asset for more than its carrying amount may happen due to a use or sale, thus generating a future profit against which temporary differences are applied.

The amendment is relevant to establish that the valuation of the future taxable profit requires analyzing if the disposal of the assets will be able to generate a higher or lower profit against which deductible temporary differences can be allocated. This way, interpretation errors would be avoided.

According to the previous statement, we recommend clarifying paragraph 29A in order to point out that the future taxable profit should not only consider the recovery through the asset's sale for more that its carrying amount, but also the possibility for the profit to be lower if tax law allows an adjustment at cost of the assets at disposal.

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.

Question 1— Do you agree with the proposed amendment?

We agree.

Question 2— Why or why not?

We consider that paragraph 29 (a) (i) pretends to add a guidance to help understand the procedure that is to be carried out so as to identify better the future taxable profit against which temporary differences can be deducted. When temporary differences are reversed in a period, the taxable profit decreases, reason why it should be clarified that the future taxable profit estimate should be done before recovering the deductible temporary differences.

If the deductible temporary differences are not compared to the future taxable profit that excludes taxable deductions originating from the reversal of such deductible temporary differences, it could lead to double accounting of the effect.

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 (e.g. 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.

Question 1— Do you agree with the proposed amendment?

We agree.

Question 2— Why or why not?

Some tax laws recognize separately the different sources of income. Thus, if the recovery of the deductible temporary difference can be allocated against a specific type of income, it is necessary to assess the corresponding deferred tax asset separately and not in combination with other deferred tax assets.

If tax law does not restrict the recovery of deductions generated by the utilisation of the deductible temporary differences, the assessment of the deferred tax asset will be done in combination with other deferred tax assets.

If this clarification is not made, non-deductible deferred tax assets may be accounted for in the future, given the non-existence of specific profit.

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.

Question 1— Do you agree with the proposed amendment?

We disagree.

Question 2— Why or why not?

We do not agree with this paragraph because we believe the retrospective or prospective application of an accounting standard should not be optional. We consider that IAS 12 should require a retrospective or prospective application based on the established in IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

Additionally, we consider that the new paragraphs that would be included in IAS 12 are just clarifying how to determine certain effects of deferred taxes but are not changing the standard's essence. Thus, we consider that such amendments would not generate accounting measurement changes, reason why the new document should be applied in prospectively.

Likewise, we believe that if any company had to adjust its deferred tax assets as a consequence of the application of the changes in IAS 12, this situation should be classified as the correction of an error and, accordingly, the effect should be recognized in retrospective.