STAFF PAPER

June 2014

IASB Meeting

IFRS IC meetings: May–Nov 2010, Nov 2012, May 2013, Jan and Mar 2014
IASB meetings: Sep 2011, Dec 2012 and May 2014

Project	**Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12)**
Paper topic	Summary of Due Process followed

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Purpose of this paper

1. The purpose of this staff paper is to explain the steps in the due process that the IASB has taken before the publication of the Exposure Draft *Recognition of Deferred Tax Assets for Unrealised Losses* (Proposed amendments to IAS 12 *Income Taxes*) and to ask the IASB to confirm that it is satisfied that it has complied with the due process requirements to date.

Background

2. The IFRS Interpretations Committee (the 'Interpretations Committee') received a request to clarify the accounting for deferred tax assets when an entity:
   - (a) has deductible temporary differences related to unrealised losses on debt instruments that are classified as available-for-sale financial assets in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. Available-for-sale debt instruments are measured at fair value and changes in their fair value are recognised in other comprehensive income.
   - (b) does not consider the available-for-sale debt instruments to be impaired.

(c) has the ability and intention to hold the available-for-sale debt instruments until the unrealised losses reverse (which may be at their maturity).

(d) has insufficient taxable temporary differences, and no other probable taxable profits, against which the entity can utilise those deductible temporary differences.

3. The issue had initially been considered as part of an annual improvement,[1] but based on the comment letters received, the IASB decided that addressing the issue would require a narrow-scope amendment instead.[2]

4. Furthermore, the IASB asked the Interpretations Committee to develop a recommendation for this amendment.

5. At its meeting, in March 2014, the Interpretations Committee decided to recommend to the IASB that the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value should be clarified on the basis of the existing principles in IAS 12 *Income Taxes*.[3]

6. Consequently, deferred tax assets for unrealised losses on debt instruments that are measured at fair value are recognised unless the entity is 'in a tax loss position'. 'In a tax loss position' means that the entity has insufficient probable future taxable profits to recognise deferred tax assets for all deductible temporary differences. In such a situation, the entity only recognises deferred tax assets for unrealised losses on debt instruments measured at fair value to the extent that it can utilise the related deductible temporary differences (see paragraphs 24–31 of IAS 12).

7. However, the Interpretations Committee observed that IAS 12 does not provide sufficient guidance on the issue.

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[1] http://www.ifrs.org/Current-Projects/IASB-Projects/Annual-Improvements/ED-May-2012/Documents/EDAnnualImprovementstoIFRSs20102012_WEBSITE.pdf

[2] http://media.ifrs.org/2012/Updates/IASB-Update-December-2012.pdf

[3] http://media.ifrs.org/2014/IFRIC/March/IFRIC-Update-March-2014.pdf

8. Consequently, the Interpretations Committee decided to recommend to the IASB that it should make a narrow-scope amendment to IAS 12 to add specific guidance on how to account for deferred tax assets for unrealised losses on debt instruments measured at fair value.

9. At its May 2014 meeting, the IASB discussed and tentatively agreed with the recommendation of the Interpretations Committee.[4]

10. However, the IASB noted that the further guidance to the mandatory guidance in IAS 12 is needed to clarify the accounting. In particular, the IASB tentatively decided to add clarifications to the mandatory guidance of IAS 12 for all the four items identified by the Interpretations Committee (see paragraph 2(a)–(d) of Staff Paper 12D). Staff proposals for amending the mandatory guidance in IAS 12, transition and other drafting issues are scheduled to be discussed and tentatively decided by the IASB at its meeting in June 2014.

Effect of the proposed amendments

11. The purpose of the proposed amendments to IAS 12 is to resolve diversity in practice in accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The comment letters on the Exposure Draft *Annual Improvements to IFRSs 2010–2012 Cycle*[5] (the 'Annual Improvements ED') and discussions with interested parties confirmed the observation of the members of the Interpretations Committee that there is significant diversity in practice.

Intention to dissent

12. When the IASB discussed the recommendation of the Interpretations Committee at its meeting in May 2014, one member voted against it. In accordance with paragraph 6.9 of the IFRS Foundation's *Due Process Handbook*, we are also

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[4] http://media.ifrs.org/2014/IASB/May/IASB-Update-May-2014.pdf

[5] http://www.ifrs.org/Current-Projects/IASB-Projects/Annual-Improvements/ED-May-2012/Documents/EDAnnualImprovementstoIFRSs20102012_WEBSITE.pdf

formally asking whether any members intend to dissent from the proposals in the Exposure Draft before we ballot.

Proposed timetable for balloting and publication

13. The balloting process of *Recognition of Deferred Tax Assets for Unrealised Losses* (Proposed amendments to IAS 12) will start in June 2014 and its publication is scheduled for July 2014.

Comment period

14. In accordance with paragraph 6.7 of the *Due Process Handbook*, we propose a minimum standard comment period of 120 days for the Exposure Draft *Recognition of Deferred Tax Assets for Unrealised Losses* (Proposed amendments to IAS 12).

Confirmation of due process steps

15. In the Appendix, we have summarised the due process steps we have taken in developing the proposed amendments to IAS 12.

16. We note that the required due process steps for the publication of the proposed amendments have been completed, as documented in the Appendix. However, because the proposed amendments to IAS 12 are narrow-scope in nature, the extent of the due process steps performed was more limited than the ones that are required for an Exposure Draft of a new Standard.

Questions for the IASB

Questions for the IASB—Compliance with due process
1. Is the IASB satisfied that all required due process steps that pertain to the publication of proposed amendments have been complied with? 2. Does the IASB agree with the proposed timetable for balloting and publication? 3. Does the IASB agree with a comment period of 120 days for the proposed amendments? 4. Does the IASB grant the staff permission to prepare the Exposure Draft for balloting? 5. Do any IASB members intend to dissent to the publication of the proposed amendments?

Appendix
Confirmation of due process steps followed in the development of the Exposure Draft

1. The following table sets out the due process steps followed by the IASB that are required for publication of the Exposure Draft:

Step	*Required/ optional*	*Actions*
Board meetings held in public, with papers available for observers. All decisions are made in public session.	Required	This issue was discussed by the IFRS Interpretations Committee (the 'Interpretations Committee') on the basis of publicly available Agenda Papers during its meetings in: • May–November 2010; • November 2012; • May 2013; and • January and March 2014. The Interpretations Committee webpages were updated by the staff after every meeting in which this issue was discussed. The IASB discussed the issue on the basis of publicly available Agenda Papers during its meetings in: • September 2011; • December 2012; and • May 2014. Another IASB discussion of the issue is scheduled for June 2014. The IASB webpages were updated by the staff after every meeting in which the issue was discussed. The IASB webpages will also be updated after the June 2014 meeting. An *IFRIC Update* and an *IASB Update* were posted after each of the Interpretations Committee meetings and the IASB meetings at which the issue was discussed. An *IASB Update* will also be posted after the June 2014 IASB meeting. A project webpage was created after the IASB meeting in December 2012. Prior to this, the issue was included in the project webpage for annual improvements to IFRSs. The IASB tentatively decided at its meeting in: • December 2012 to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value by a separate narrow-scope amendment to IAS 12; and • May 2014 to propose a narrow-scope amendment to IAS 12.
Consultation with the Trustees and the IFRS Advisory Council.	Required	Because of the narrow-scope nature of the amendments to IAS 12 this was considered to be unnecessary.
Analysis of the likely effects of	Required	This is a narrow-scope amendment and its objective is to clarify the accounting for deferred tax assets for unrealised losses on debt instruments

Step	*Required/ optional*	*Actions*
the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs.		measured at fair value. We assessed the likely effects of the proposed amendment as being limited, because the scope of the proposed amendment is narrow. The staff provided/provides the IASB with a description of the financial reporting effects of the proposed amendment at the IASB's meetings in May and June 2014. A description of the financial reporting effects of the proposed amendments will also be included in the Basis for Conclusions of the Exposure Draft.
Finalisation		
Due process steps reviewed by the IASB.	Required	The IASB will review the due process steps in its June 2014 meeting.
The Exposure Draft has an appropriate comment period.	Required	We will propose at the June 2014 IASB meeting that the Exposure Draft will be published with a standard comment period of 120 days.
Drafting		
Drafting quality assurance steps are adequate.	Required	The translation team will be asked to review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Required	The XBRL team will be asked to review the pre-ballot draft.
Publication		
Exposure Draft published.	Required	The Due Process Oversight Committee will be informed as part of the routine reporting to them and also following the June 2014 IASB meeting.
Press release to announce publication of the Exposure Draft.	Required	A press release will be published announcing the Exposure Draft.