EFRAG
European Financial Reporting Advisory Group

10 September 2009

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

Dear Madam/Sir

IASB Exposure Draft *Income Taxes*

On behalf of the European Financial Reporting Advisory Group (EFRAG) I am writing to comment on Exposure Draft 2009/2 'Income Taxes' (the ED). This letter is submitted in EFRAG's capacity of contributing to IASB's due process and does not necessarily indicate the conclusions that would be reached in its capacity of advising the European Commission on endorsement of the definitive interpretations/amendments on the issues.

The IASB's Income Taxes project is a joint project with FASB, and it was originally described as a short-term convergence project. That means that a fundamental objective of the project is to achieve convergence with US GAAP. EFRAG is a supporter of having a single global accounting language. EFRAG, however, notes that (paragraph IN5 of the ED) the FASB has deferred any decision on whether to undertake projects that would eliminate differences in the accounting for tax, thus this objective will not be achieved. A second objective is to amend IAS 12 *Income Taxes* in ways that address some aspects of existing IAS 12, and, does not involve a fundamental re-think of the accounting for income taxes.

We are not convinced that the proposals in the ED represent an improvement to existing IAS 12 and therefore we think that the ED should not be used as a basis for a revised standard on income taxes. As we have said before on other occasions, we do not support convergence simply for the sake of convergence and in particular, would not generally support changes to IFRS that would not improve financial reporting. It also concerns us that, in our view, many of the proposals are not supported by material in the Basis for Conclusions that clearly explain why the IASB thinks that the proposed changes are an improvement to financial reporting.

We are also very concerned that certain proposals are excessively rules-based and lack underlying conceptual rationale. In other words, we think that the ED forsakes the benefits of having an amended income tax standard that is based on clearly articulated principles that are workable in "real life", and which entities can apply to their particular tax situation. Perhaps a further problem might be that the IASB is trying to align aspects of existing IAS 12 with a totally different tax jurisdiction without first having carried out a field-test exercise to better understand the implications of the proposals and assess the usefulness of the information that the ED will produce when applied to a non US environment. To this end, we believe that a thorough field-test exercise would be very helpful to bring to light the implications of the proposals and place the IASB in a better position to reach a conclusion on whether the proposals can be operational and effective in meeting its objectives.

Our detailed comments are set out in the appendix to this letter, but our main concerns can be summarised as follows:

(a) We disagree with the proposal to define the tax basis of an asset or a liability to be determined based on a consequence of sale or settlement at the reporting date. While we believe that the approach in the ED could bring some consistency to the way entities determine the tax basis of an asset or a liability, we also believe that the outcome of the proposed approach may result in meaningless and sometimes confusing information.

(b) We are very concerned that the ED looks at the notion of management expectations in a way that is internally inconsistent with other aspects of the ED. For instance, the guidance in respect to the "tax basis" is contrary to the way deferred tax assets and liabilities are measured under the ED. We find it odd that the ED requires management expectations to determine the tax rate, yet rejects it in respect to the tax basis.

(c) We believe that the proposals in the ED aimed at eliminating the "initial recognition" exception, are overly complex. In addition, we do not think they will produce information that is more meaningful than that required by the current IAS 12. We say this because, despite the various complex steps involved, the end result will in most cases be the same as under IAS 12.

(d) The ED retains an exception for temporary differences that arise on *foreign* subsidiaries and joint ventures (when the temporary difference is essentially permanent in nature) but removes the existing exception for all *domestic* subsidiaries. Again, we disagree with this proposal. While we agree that the calculation of the amount for deferred taxes for permanently reinvested unremitted earnings of foreign entities might require a fairly high degree of complexity, we believe that a similar argument can apply to domestic ones. Furthermore, developing a principle based on a where an entity is located is an unacceptable approach. In our view, the existing exceptions in IAS 12 should be retained.

(e) We have several concerns with the proposal to measure deferred tax assets and liabilities using the probability-weighted average amount of all possible outcomes. In our view, such an approach is overly complex and unlikely to produce a precise tax figure, despite its onerous requirements. We believe that a "best estimate" approach based on the most likely outcome would be preferable.

(f) We think the requirements on the allocation of tax expense/benefit are overly prescriptive, add undue complexity to the way tax allocation is carried under IAS 12, and will not significantly improve the information that will be provided. In addition, we do not support the proposal to eliminate "backwards tracing", because we think the improved information it provides justifies any minor incremental effort the approach involves.

If you would like further clarification of the points raised in this letter, please contact Isabel Batista, Jeff Waldier or me.

Yours sincerely

Stig Enevoldsen

EFRAG, Chairman

APPENDIX—EFRAG'S RESPONSE TO INVITATION TO COMMENT

Question 1 - Definitions of tax basis and temporary difference

The exposure draft proposes changes to the definition of tax basis so that the tax basis does not depend on management's intentions relating to the recovery or settlement of an asset or liability. It also proposes changes to the definition of a temporary difference to exclude differences that are not expected to affect taxable profit. (See paragraphs BC17–BC23 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

EFRAG's response to Question 1

Tax basis of an asset and a liability

1 We recognise that the proposal is a simple one and is likely to involve a lower degree of judgement. However, we have significant concerns with the proposed definition of the tax basis of an asset or a liability.

2 First, we disagree with this proposal on a conceptual level. In our view, in its definition of tax basis, the ED provides, in one sentence, an understandable principle as to what a tax basis might represent in a particular tax jurisdiction. This definition states that the tax basis is the "measurement, under applicable substantively enacted tax law of an asset, liability or other item". However, as we progress to the more detailed aspects of how the principle is to be applied, we become less convinced that an approach based on sale will always lead to appropriate, meaningful and decision useful information in all tax jurisdictions.

3 In relation to the tax basis of an asset, the IASB argues (BC21) that requiring the tax basis of an asset to be determined based on the tax effects of selling the asset at the reporting date will help resolve the uncertainties that have arisen in practice. We disagree with this argument.

4 In our view, entities will often acquire assets for use or consumption in their day-to-day operations, and may not necessarily recover their operational assets through sale. We think that requiring a simplistic fit-for-all 'sale' approach to determine the tax basis of an asset, will mean that in some cases the actual tax cash flows that are likely to arise from the recovery of an asset will be different - and sometimes very different - from the deferred tax effects recognised in the financial statements. The tax basis of an asset will often depend on how an entity recovers it, which may vary from entity to entity. Some entities may recover an asset through sale whereas others may recover it through use and other entities may recover some assets, for example real-estate, through sale and some assets through use. Therefore, we are not convinced that determining the tax basis of assets based on a single 'sale' notion, is the right conclusion.

5 In addition, in some tax jurisdictions an asset may have no tax basis or a different tax basis while it is being used, whereas on sale there is a tax basis arising under the capital gains tax laws. In other tax jurisdictions, the opposite can happen. In a third situation, an entity may intend to recover an asset partly through use and partly through sale, and the tax basis might depend on the manner in which the asset will be recovered (the tax basis can be different or might comprise of a combination of two or more values attributed by the tax authorities). In these cases, it is clear to us that having information based on the tax basis determined on sale

will most likely produce information that is meaningless, and thus more likely to confuse users.

6 Similar to the definition and related guidance on the tax basis of an asset, the ED proposes that the tax basis of a liability be determined based on how it is settled at the reporting date. Again, we disagree with the single approach being proposed, as we believe that in some circumstances the tax basis of a liability might depend on whether the liability is settled or transferred at the reporting date or on another date.

7 Second, paragraph BC19 of the ED explains that SFAS 109 does not explicitly define a tax basis. Nevertheless, the IASB argues (BC21) that the proposals in the ED (i.e. determining the tax basis based on the "sale" of an asset) will in most cases result in a tax basis that is consistent with that used under US GAAP, except when the deductions available on sale differ from the cost of the asset less deductions received so far plus any tax indexation allowance. In other words, the proposals in the ED will achieve convergence in some circumstances but will not ensure convergence in other circumstances. We think the requirements in IAS 12 are already converged in that 'tax basis' is undefined currently in SFAS 109. If there is diversity in practice where tax basis differs on sale, that diversity in practice is likely to exist under both IFRS and US GAAP.

8 In a third point, we note that in some tax jurisdictions the tax basis of an asset or liability, when based on sale, may be subject to periodic adjustment - such as indexation adjustments - by the tax authorities. In such situations, entities will be faced with an added burden of having to determine the tax basis of each asset and liability at each and every reporting period, and preparers might be faced with a disproportionate degree of additional costs that are unlikely to be compensated by benefits it might bring to users. In fact, we believe that the ED will result in 'fluctuating' deferred taxes numbers. As we have argued in the above paragraphs, accounting for the deferred tax effects based on sale, will not always represent the actual tax effects an entity is likely to face when it recovers an asset or settles a liability. The added volatility might confuse users and make the deferred tax numbers even less useful.

Management expectations

9 The ED further says (BC22) that the tax basis does not depend on management's expectations of how the carrying amount of an asset will be recovered. Again we disagree with this point of view. As explained in the above paragraphs, an asset may have more than one tax basis and in some tax jurisdictions the tax basis of an asset may depend on how an entity recovers it. In such cases, we strongly believe that the tax basis of an asset should be determined based on the way management expects to recover it, because it will provide the most useful information for users.

10 As a second point, we are concerned that the ED looks at the use of judgement by management or management expectations in an inconsistent way in relation to various aspects of the proposals in the ED. For example, the ED disregards management expectations in the way it determines the tax basis of an asset and a liability, but considers management expectations:

(a) when an entity decides whether to recognise a deferred tax asset or a liability(paragraph 10 of ED),

(b) when measuring deferred tax assets and liabilities including the deferred tax implications that arise on the subsequent re-measurement of assets and liabilities (paragraph 25 of the ED),

(c) when an entity considers whether a temporary difference arises on the re-measurement of assets to fair value (B15 of the ED),

(d) in relation to the exception to investments in other entities (B6 of the ED).

11 It is clear to us that the notion of management expectations is firmly entrenched in the way deferred taxes are accounted for in accordance with the ED. The proposal to remove it from the determination of the tax basis is thus contradictory to other aspects of the ED.

Recognition core principle and the definition of a temporary difference

12 We recognise that the ED maintains the existing temporary difference approach in IAS 12, and hence any changes it proposes have been made with this approach in mind. However, we have some concerns about whether the revised core principle is sufficiently clear when read together with the definition of a temporary difference and paragraph 10 of the ED.

13 We think the link between the core recognition principle, the proposed guidance about the definition of a tax basis of an asset or a liability and the proposed definition of a temporary difference, is not clear and can be seen to be somewhat circular.

14 Paragraph 5 of the ED sets out the various steps to be followed in accounting for income tax. In relation to assets and liabilities, paragraph 5(b) requires an entity to identify which assets and liabilities would be expected to affect taxable profit if they are recovered or settled for their present carrying amounts. Paragraph 10 explains that if there is no effect on taxable profit, no deferred tax arises in respect of the asset or liability. The guidance in paragraph 10 is based on the difference between an asset's or a liability's carrying amount in the financial statements and its tax basis - which is based on the tax consequences arising on sale of the asset or settlement of the liability. Therefore, we interpret the ED to say that if an entity expects to recover an asset through use and in doing so will not affect taxable profit, then no deferred tax arises. However, this is somewhat contradictory to the way the ED defines a tax basis of an asset - that definition is based on selling the asset - and also contradictory to the definition of a temporary difference, which refers to "the tax basis that the entity expects will affect taxable profit".

15 In our view, it would be useful to include examples to illustrate the application of paragraph 10 in situations where the tax effects will vary significantly depending on whether an asset is used or sold. For example, in the case of depreciable assets that an entity expects to recover through use rather than sale, when the depreciation is not tax deductible, but revenues generated by using the asset are taxable.

Dual-purpose assets/liabilities

16 In some cases an entity may have a dual intention with respect to how it will recover an asset (i.e. to use the asset and then to sell it). This may also occur with liabilities, albeit to a lesser extent. In our view, a "dual-purpose" asset means that it will be recovered in two ways and the calculation of deferred tax should reflect that dual expectation. We believe that it would be useful if the IASB developed additional guidance on how to account for deferred taxation on assets and liabilities which may have two or more tax basis.

<u>EFRAG's overall conclusion</u>

17 To conclude, we believe that requiring the tax basis to be determined on the basis that an asset will be sold, or a liability settled, is not the conceptually correct approach and may not always result in a faithful reflection of the deferred tax consequences an entity is exposed to. We also think the issue the IASB is attempting to resolve might be better addressed through additional guidance that addresses specific situations rather than defining the tax basis in a way that disregards management expectations.

18 In our view, the way an asset is recovered and a liability is settled is a decisive factor in determining its tax basis and consequently the amount of deferred tax that an entity will recognise. We strongly believe that an entity should not be bound to determine the tax consequences on sale only, as the outcome in some circumstances might be tax numbers that are meaningless and more so potentially misleading to users. We would argue that leaving the tax basis - as it currently is in IAS 12 or making it undefined as it is in SFAS 109 – would result in IFRS and US GAAP being converged. Alternatively, we think the IASB should develop a clearly articulated principle that is operational and that supports the basic definition of a tax basis as defined in the ED that will permit entities to interpret that principle and apply it to their particular tax situation.

19 We think the inconsistency in the ED on the use of management expectations should be resolved by requiring the way management expects to recover an asset or settle a liability to play a role when an entity estimates what the tax basis of an asset or a liability at the reporting date. We see no reason at all as to why the IASB has decided to dispense with the going concern principle in respect to the tax basis, more so because it is based on a rejection of management intentions which, in other instances in the ED are openly acceptable. In developing its thinking further, we encourage the IASB to carry out a series of field tests across the global tax regimes to explore the possible consequences of the proposal and of the impact of ignoring management intent when establishing the tax basis of an asset that addresses "real life" situations in relation the way assets are recovered. We strongly encourage the IASB to do this if it decides to go ahead with the ED. Another point is that if the IASB intends to eliminate the use of management expectations in general a more comprehensive debate on its use and application is needed.

20 We think the linkage between recognition of deferred taxes in the ED and the proposed definition of a temporary difference would benefit if made clearer in the ED and encourage the IASB to review the drafting.

Question 2 - Definitions of tax credit and investment tax credit

The exposure draft would introduce definitions of tax credit and investment tax credit. (See paragraph BC24 of the Basis for Conclusions.)

Do you agree with the proposed definitions? Why or why not?

EFRAG's response to Question 2

21 Generally speaking, tax credits (including investment tax credits) are interpreted to be a form of tax incentives granted to entities in certain circumstances and when certain conditions are met.

22 We note that in some European tax jurisdictions, a tax credit can be associated with investments in assets. In our view, it is difficult to differentiate between a simple tax credit and an ITC, and we think that IAS 12 should remain silent in this

respect, until such time as a thorough understanding is obtained about the types of tax incentives to stimulate investments and their implications.

Question 3 – Initial recognition exemption

The exposure draft proposes eliminating the initial recognition exception in IAS 12. Instead, it introduces proposals for the initial measurement of assets and liabilities that have tax bases different from their initial carrying amounts. Such assets and liabilities are disaggregated into (a) an asset or liability excluding entity-specific tax effects and (b) any entity-specific tax advantage or disadvantage. The former is recognised in accordance with applicable standards and a deferred tax asset or liability is recognised for any temporary difference between the resulting carrying amount and the tax basis. Outside a business combination or a transaction that affects accounting or taxable profit, any difference between the consideration paid or received and the total amount of the acquired assets and liabilities (including deferred tax) would be classified as an allowance or premium and recognised in comprehensive income in proportion to changes in the related deferred tax asset or liability. In a business combination, any such difference would affect goodwill. (See paragraphs BC25–BC35 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

EFRAG's response to Question 3

23 We welcome the efforts the IASB is making to address this exception and its attempt to eliminate it; we are, as a general rule, in favour of eliminating the exceptions in IAS 12 because we think that it will result in a more principle-based standard.

24 However, we have several concerns with the requirements in this proposal and do not believe that the IASB has made a sufficiently persuasive case to convince us that the proposals are an improvement to IAS 12 and, more so, we question whether the proposal does eliminate the existing exemption in IAS 12 or whether it simply redefines it in a different and more complex way. It is also our understanding that the proposals will not result in convergence with US GAAP on the tax accounting for these transactions. Our more specific concerns are discussed below.

Entity-specific tax effects and recognition under IFRSs (steps 1-2)

25 We have several concerns about this proposal.

26 Our first concern is the rules-based nature of the proposal and the fact that we find those 'rules' to be unclear. For instance, we think it is unclear what "entity-specific tax effect" means and who the "market participants" referred to in the ED might be. We think that entities are likely to have difficulty in assessing tax positions of others to determine whether there were, in fact, entity specific impacts. We think that this aspect of the requirement may entail significant use of judgement and impose considerable amount of effort on entities. For example, it is unclear to us whether "entity-specific" is the result of an entity's own tax planning exercise, an exclusive tax structuring opportunity offered by the seller of the asset, a unique status with taxing authorities or something else. Further, we suspect that in many situations, it might be extremely difficult, if not impossible, to obtain the information necessary in order to assess the tax implications of other entities that might be market participants. The IASB has acknowledged (in BC29) that "there may be difficulties" in this respect. We totally agree this will be the case.

27 Our second concern is whether the requirements in the ED are consistent with the way assets and liabilities are recognised in other IFRSs. BC29 explains that recognising an asset or a liability as described in B11 and B12 results in a carrying amount for that asset that will be consistent with the carrying amount of other assets and liabilities that are not affected by any entity-specific tax effects. We are not convinced this is the case and note the following:

(a) Under the ED, if a tax basis of an asset or liability that is assigned to an entity is different to that assigned to other market participants (because an entity is granted an entity-specific tax advantage), the amount recognised initially as an asset or a liability will <u>not equal</u> the consideration paid or received by the entity for the asset or liability. In this case, B10 of the ED requires an entity to recognise an amount that assumes a tax basis equal to that available to all other market participants – in other words a semi "grossed-up" or "grossed-down" number that removes any tax advantages or disadvantages that are specific to that entity. In our view, such an approach is not consistent with the way assets and liabilities are recognised and measured initially under other IFRSs.

(b) The notion of whether the amounts recognised for assets and liabilities are pre-tax or post-tax has created some debate in other IFRSs, particularly when they are measured initially or subsequently at fair value. The pre-tax/post-tax concept has not been fully debated in IFRSs, and we think it should be because it is valid to ask whether it is more appropriate to present assets and liabilities using a pre-tax presentation with a corresponding deferred tax liability or tax asset versus a net of tax presentation where the tax effects are included in the valuation of the respective assets and liabilities. We recognise though that this question is not unique to the "initial recognition exception"; it arises in numerous other cases. Nonetheless, we think it might be a worthwhile aspect for the IASB to explore further in the context of this 'exception' and how to address the accounting for it and the underlying tax effects.

28 An alternative approach considered by the IASB (BC29) would be to account for the assets and liabilities at fair value. This approach would, we believe, in principle be analogous to the method in US GAAP where the consideration paid or received for an asset or a liability is 'grossed-up' so that it presents a pre-tax number. The IASB rejected this approach on grounds that it did not want to introduce new fair value measurements in this ED. We believe the IASB should have explored this further before rejecting it.

Net-off approach on deferred tax effects (step 4)

29 The outcome of the proposal in the ED will in most cases, result in the same end result on initial recognition as the current exception in IAS 12 – a zero deferred tax balance in the financial statements. In some cases, when the tax basis of an asset or liability that is assigned to an entity is different to that assigned to other market participants, the deferred tax balance might not be zero. The same might be the case in some other limited cases. In our view, the ED does not clearly explain how to deal with such situations.

30 The ED explains (BC33) that the allowance or premium that arises from adopting the proposals is an anomaly that arises because the approach in IAS 12 does not measure deferred tax assets and liabilities at fair value or at a price established by an exchange transaction for the tax asset or tax liability. Therefore, the IASB concluded that the anomaly should be recognised as part of the underlying

deferred tax asset or liability. In other words, the anomaly should be dealt with using a 'net-off' approach. The IASB's reasoning (BC34) indicates that this approach makes tracking subsequent changes of the temporary difference easier. While we agree that the resulting allowance or premium is an anomaly, we do not agree that the solution to resolve this anomaly lies in the net-off approach proposed, because as we say above, the alteration being proposed, albeit more complex and likely to involve disproportionate undue cost to preparers, will normally produce a similar answer to that in IAS 12.

31 We agree with the ED that "tracking" of the subsequent changes in the initial temporary difference is not always straightforward - particularly if a new temporary difference arises from the same asset or liability at a later date (for example due to re-measurement of the asset or liability) - but we are not convinced that it is a significant issue. That is because we believe that, when an entity is involved in transactions that involve such specific tax effects, it generally will have the necessary tax systems to address such situations.

<u>EFRAG's overall conclusion</u>

32 Overall, we believe that the proposals in the ED in this area are overly complex and we do not think they will produce information that is meaningful. In our view, the IASB should consider whether it is more appropriate to retain the present requirements in IAS 12 on grounds that they are clearer and easier to apply or find a more principle based approach than the one proposed in the ED.

Question 4 – Investments in subsidiaries, branches, associates and joint ventures

IAS 12 includes an exception to the temporary difference approach for some investments in subsidiaries, branches, associates and joint ventures based on whether an entity controls the timing of the reversal of the temporary difference and the probability of it reversing in the foreseeable future. The exposure draft would replace these requirements with the requirements in SFAS 109 and APB Opinion 23 Accounting for Income Taxes—Special Areas pertaining to the difference between the tax basis and the financial reporting carrying amount for an investment in a foreign subsidiary or joint venture that is essentially permanent in duration. Deferred tax assets and liabilities for temporary differences related to such investments are not recognised. Temporary differences associated with branches would be treated in the same way as temporary differences associated with investments in subsidiaries. The exception in IAS 12 relating to investments in associates would be removed. The Board proposes this exception from the temporary difference approach because the Board understands that it would often not be possible to measure reliably the deferred tax asset or liability arising from such temporary differences. (See paragraphs BC39–BC44 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not? Do you agree that it is often not possible to measure reliably the deferred tax asset or liability arising from temporary differences relating to an investment in a foreign subsidiary or joint venture that is essentially permanent in duration? Should the Board select a different way to define the type of investments for which this is the case? If so, how should it define them?

EFRAG's response to Question 4

33 We disagree with this proposal. While we agree with the argument in BC43 - that the calculation of the amount for deferred taxes for permanently reinvested unremitted earnings of foreign subsidiaries and joint ventures might sometimes require a fairly high degree of complexity - we also believe a similar argument can sometimes apply to entities that are domiciled locally. Therefore, our logical

reaction is to think that if the IASB is to permit an exception for the tax effects arising on certain investments as described in IAS 12, it should also permit entities to apply that exception to all their subsidiaries and joint ventures, irrespective of where the entities are domiciled.

34 As a second point, we believe that developing an accounting model based on where an entity is located, as is done in the ED, is in our view an inappropriate way of developing global accounting standards, as it may produce information that is meaningless and perhaps even confusing. The Basis for Conclusions is not very helpful in this sense. In addition, we believe that in some cases the proposal to differentiate between a foreign subsidiary and a domestic one will create practical application difficulties. For instance, some group entities operate within a cross-border environment and have different level of holding companies within the group. In this case, a subsidiary might be considered "foreign" for the ultimate parent entity but domestic for its direct holding entity, which might be required to prepare consolidated financial statements. We recommend the IASB clarify this issue if it retains the proposal contained in the ED.

35 Finally, we have a concern with the change in the language used to describe the criteria in the ED to exempt certain investments from the temporary method approach. At present, the exception criterion requires an entity to "control the timing of the reversal of the temporary difference and the probability of it reversing in the foreseeable future". The ED would change the criterion to "essentially permanent in duration". We understand that it is not the intention of the IASB to change the outcome as a result of the change in the language used to describe the criteria that is required for the exemption to apply. However, we are concerned that as currently drafted in the ED, the notion of "essentially permanent in duration" is unclear and may be interpreted by some to require a higher threshold than is required at present. We recommend the IASB clarify how the assessment is expected to be made.

<u>EFRAG's overall conclusion</u>

36 Although we support convergence between IFRS and US GAAP, we think that convergence should be to the standard that is deemed to be most appropriate and not the other way round, which we believe is the case here. For the reasons cited above, we believe the existing exceptions in IAS 12 should be retained.

37 We recommend the IASB clarify how the assessment in relation to "essentially permanent in duration" is expected to be made.

Question 5 – Valuation allowances

The exposure draft proposes a change to the approach to the recognition of deferred tax assets. IAS 12 requires a one-step recognition approach of recognising a deferred tax asset to the extent that its realisation is probable. The exposure draft proposes instead that deferred tax assets should be recognised in full and an offsetting valuation allowance recognised so that the net carrying amount equals the highest amount that is more likely than not to be realisable against taxable profit. (See paragraphs BC52–BC55 of the Basis for Conclusions.)

Question 5A

Do you agree with the recognition of a deferred tax asset in full and an offsetting valuation allowance? Why or why not?

<u>EFRAG's response to Question 5</u>

38 Although we think that the net outcome under the ED's proposals will be consistent with that achieved under IAS 12, we believe that the information presented will be enhanced as users will be able to obtain more transparent information about how the net deferred tax amount has been determined. We also agree with the IASB's arguments in BC53. We therefore agree with the proposal.

Question 5B

Do you agree that the net amount to be recognised should be the highest amount that is more likely than not to be realisable against future taxable profit? Why or why not?

EFRAG's response to question 5B

39 The term 'probable' in existing IAS 12 and is already understood as it is used elsewhere within IFRS. For example, as explained in paragraph 16 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the term "probable" is intended to mean "more likely than not". On this basis, we agree that the net amount recognised should be the highest amount that is more likely than not to be realisable.

40 The IASB explains in BC55, that they proposed this change to align the terminology with other IFRSs and US GAAP, and it is not intended to change the threshold in the context of the recognition and measurement of a deferred tax asset in IAS 12. We recommend the IASB to clarify this in the Basis for Conclusions in any final standard.

Question 6 – Assessing the need for a valuation allowance

Question 6A

The exposure draft incorporates guidance from SFAS 109 on assessing the need for a valuation allowance. (See paragraph BC56 of the Basis for Conclusions.)

Do you agree with the proposed guidance? Why or why not?

<u>EFRAG's response to Question 6A</u>

41 Overall, we question whether the detailed rules provided in B17-B25 are necessary. At the same time we acknowledge that IAS 12 is already fairly prescriptive in its guidance in relation to when an entity can recognise a deferred tax asset. Having said that, we cannot accept that such rules be part of an amended IFRS standard on the accounting for income tax.

42 In our view, the IASB should have laid out the principles and considered adding some brief implementation guidance, if they were of the view that added guidance was needed to improve IAS 12. We believe that convergence should mean improved standards and not more detailed rules.

Question 6B

The exposure draft adds a requirement on the cost of implementing a tax strategy to realise a deferred tax asset. (See paragraph BC56 of the Basis for Conclusions.)

Do you agree with the proposed requirement? Why or why not?

EFRAG's response to Question 6B

43 We think that this is yet another very ruled-based requirement which we believe will not be an improvement to IAS 12 and is once again giving preference to a US GAAP requirement and simply adopting that existing requirement, without the IASB having considered other possible alternatives to the accounting. We are concerned with the precedent that the ED seems to be setting – when IFRS is silent on something it is US GAAP that prevails. We find this approach simply unacceptable.

44 The ED does not explain why the IASB believes that the guidance under US GAAP is preferable to something else. In our view, it is fundamental that the IASB give sufficient thought to the changes proposed to IFRS and justify those changes clearly in the Basis for Conclusions.

<u>EFRAG's overall conclusion</u>

45 Overall, we believe that IAS 12 should remain silent on this topic, until such time as the IASB can evaluate the other possible alternatives in the accounting for such costs, and of those alternatives select the more appropriate one.

Question 7 – Uncertain tax positions

IAS 12 is silent on how to account for uncertainty over whether the tax authority will accept the amounts reported to it. The exposure draft proposes that current and deferred tax assets and liabilities should be measured at the probability-weighted average of all possible outcomes, assuming that the tax authority examines the amounts reported to it by the entity and has full knowledge of all relevant information. (See paragraphs BC57–BC63 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

EFRAG's response to Question 7

46 We have several concerns with this proposal. First, we are concerned with the level of precision implied by the specific "rules" in the ED (see paragraph 26 for example); we think it is unrealistic to expect a high degree of precision in accounting for uncertain tax positions, and that it follows that these specific rules are unnecessarily prescriptive. In our view, BC63 is probably right in saying that in some cases the requirement to adopt a probability-weighted average of possible outcomes could be unduly onerous.

47 Second, we are not aware of any field testing that has been carried out to explore the practical consequences of the increased rigidness proposed in the requirements, and to support that it is indeed the most appropriate way of computing a so-called precise tax number. With this in mind, we suggest that the IASB carry out some field tests to better understand the implications of this proposal, if the IASB intends to retain it. We also believe there will be concerns of reporting entities that the prescribed approach may provide unduly transparent tax information to tax authorities. Once again, field tests would be helpful in this respect.

48 Third, we are not aware of a significant issue in practice under IFRS, and therefore it seems to us unduly onerous to require an entity to apply such degree of precision, which in our view is not really precise anyway.

EFRAG's overall conclusion

49 We have considered what approach we believe could be acceptable, if the IASB decides that IAS 12 ought to have guidance on this topic. In our view, the probability approach that the ED suggests is unlikely to produce a precise tax figure, despite the onerous requirements that an entity is likely to adopt to get to that number.

50 We think that another way to get to an reasonable tax number, when uncertain elements exist, is for an entity to simply adopt an approach based on the most likely outcome. This would be consistent with the spirit of the measurement principle set out in paragraph 25 of the ED, as it requires entities to measure deferred tax assets and liabilities based on tax rates that are likely to apply. We therefore fail to see the need for the detailed guidance proposed by the ED. We further note that the use of a 'best estimate' notion would be consistent with other IFRSs and with the way the IASB is developing other forms of guidance for topics that are subject to uncertainty of information. We encourage the IASB to further explore our suggestions as discussed in this paragraph, when finalising the ED.

Question 8 – Enacted or substantively enacted rate

IAS 12 requires an entity to measure deferred tax assets and liabilities using the tax rates enacted or substantively enacted by the reporting date. The exposure draft proposes to clarify that substantive enactment is achieved when future events required by the enactment process historically have not affected the outcome and are unlikely to do so. (See paragraphs BC64–BC66 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

EFRAG's response to question 8

51 We agree with the clarification in the ED that substantive enactment is achieved when future events required by the enactment process historically have not affected the outcome and are unlikely to do so. In our view, the proposal is also consistent with the way many entities interpret "substantive enactment" at present in the absence of specific guidance.

52 IAS 12 already requires measurement of deferred tax assets and liabilities to be based on "substantial enactment", which is slightly different to US GAAP which looks at the "enacted" tax rate. As explained in BC65 the IASB rejected the US GAAP approach on the grounds that in some tax jurisdictions it would be inappropriate to have to wait until the actual formal announcement of the enacted tax rate is made. We support the line the IASB has taken on this issue.

53 A more detailed point is the reference in B26 to the US specifically. We find such a reference unacceptable considering that the US does not use IFRS and the US is only one nation compared to many other nations in the world that actually use IFRS.

Question 9 – Sale rate or use rate

When different rates apply to different ways in which an entity may recover the carrying amount of an asset, IAS 12 requires deferred tax assets and liabilities to be measured using the rate that is consistent with the expected manner of recovery. The exposure draft proposes that the rate should be consistent with the deductions that determine the tax basis, ie the deductions that are available on sale of the asset. If those deductions *are available only on sale of the asset, then the entity should use the sale rate. If the same deductions are also available on using the asset, the entity should use the rate consistent with the expected manner of recovery of the asset. (See paragraphs BC67–BC73 of the Basis for Conclusions.)*

Do you agree with the proposals? Why or why not?

EFRAG's response to Question 9

54 As mentioned in our response to question 1, we strongly object to the way the ED describes the way the tax basis is determined because we believe that the tax basis of an asset or a liability should depend on how an entity will recover an asset or settles a liability. We further believe that the way deferred tax assets and liabilities ought to be measured should be based consistently on the way the related asset or liability will be recovered or settled. For instance, if an asset is to be recovered via sale both the tax basis and the tax rate should be related to the sales recovery. We find it odd that the IASB accepts the relevance of management intent in determining the tax rate to be applied to the measurement of deferred tax assets and liabilities, but rejects this notion in respect to the tax basis.

55 The proposal in B29 seems at first sight to be simple and logical. However, we are not convinced that accounting for deferred tax based on a sale tax rate is always the best solution, particularly if the entity will recover the asset through use. The fact is that the tax rates may vary significantly. Therefore, in a simple situation, we believe that when an asset is to be recovered through use, both the tax basis and the tax rate applicable on use should be applied in the deferred tax calculation. It follows that, in our view, if an asset is to be recovered through sale, the sales tax basis and sales tax rate should be applied. Such an approach would ensure that the most relevant information is provided to users.

56 It seems to us that B29 describes the very simple situation that either the tax basis is available only on sale or available for both sale and use. However, there are many variations on full, part of no availability and both sale and use, and that the situation can vary every year and maybe even between individual assets. We do not believe it is realistic to describe it as a binary situation.

57 Overall, we find B29 confusing and have struggled to understand fully its intended meaning. According to B29 the tax rate on sale should be used if the deductions are available "only" on sale. We are unsure whether this means exactly the same amount of tax deduction or partly the same deduction. We are also unsure whether it means the same deduction at the point in time of initial recognition or whether it must be the same deduction at all times through use or sale. If it is meant to be the same amount of deduction at all times throughout the period of ownership regardless, the possibility to use a "non-sale" tax rate is likely to be extremely remote in many circumstances. If that is so, the IASB ought to have required the use of the tax rate on sale, in all circumstances. Having said that – and as mentioned earlier in this letter - it seems meaningless to us to provide a deferred tax figure based on a sales approach if an entity will recover the asset through use.

<u>EFRAG's overall conclusion</u>

58 As explained above, in our view the way an asset or a liability is recovered or settled is a fundamental factor in determining the tax basis of the asset or liability and therefore whether a temporary difference exists and consequently whether deferred tax needs to be recognised in the financial statements.

59 Therefore, we believe that the when an entity expects to recover an asset through use, it should apply both the tax basis and the tax rate related to use; and if the asset is to be recovered through sale it is the sales tax basis and tax rate applicable on sale that should be applied.

Question 10 – Distributed or undistributed rate

IAS 12 prohibits the recognition of tax effects of distributions before the distribution is recognised. The exposure draft proposes that the measurement of tax assets and liabilities should include the effect of expected future distributions, based on the entity's past practices and expectations of future distributions. (See paragraphs BC74–BC81 of the Basis for Conclusions.)

*Do you agree with the proposals? Why or why not**?***

EFRAG's response to question 10

60 We do not support the proposal. We share the view expressed in BC79 of the ED that the tax consequences arising from the settling of a liability cannot be recognised without the liability being recognised. The event that triggers the income tax consequence of the distribution is the distribution itself.

61 Further, we believe that in some cases the proposal may be more difficult to apply because it will require an estimate of distributions even where the reporting entity does not control the dividend policy.

Question 11 – Deductions that do not form part of a tax basis

An entity may expect to receive tax deductions in the future that do not form part of a tax basis. SFAS 109 gives examples of 'special deductions' available in the US and requires that 'the tax benefit of special deductions ordinarily is recognized no earlier than the year in which those special deductions are deductible on the tax return'. SFAS 109 is silent on the treatment of other deductions that do not form part of a tax basis.

IAS 12 is silent on the treatment of tax deductions that do not form part of a tax basis and the exposure draft proposes no change. (See paragraphs BC82–BC88 of the Basis for Conclusions.)

Do you agree that the exposure draft should be silent on the treatment of tax deductions that do not form part of a tax basis? If not, what requirements do you propose, and why?

EFRAG's response to question 11

62 EFRAG is not aware of any existing problems in practice related to deductions that do not form part of part of the tax basis of an asset or liability. We agree with the board that it would be impractical to list specific items from various tax jurisdictions as special deductions in developing a global standard, and think the existing principle of the standard provides adequate guidance. As a result, EFRAG agrees that the ED should be silent on the treatment of tax deductions that do not form part of a tax basis. However we would like to mention that it seems a bit odd to ask the question without explaining what the issue is.

Question 12 – Tax based on two or more systems

In some jurisdictions, an entity may be required to pay tax based on one of two or more tax systems, for example, when an entity is required to pay the greater of the normal corporate income tax and a minimum amount. The exposure draft proposes that an entity should consider any interaction between tax systems when measuring deferred tax assets and liabilities. (See paragraph BC89 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

EFRAG's response to question 12

63 EFRAG agrees with the proposal that an entity should consider the interaction between tax systems. We believe entities that are subject to tax based on one of two systems are in a similar economic situation being subject to graduated tax rates. The level of tax levied by taxing authorities can vary under a two tax system because deductions or rates may differ depending on taxable income. Under graduated tax rates, only the rate differs. In both cases, we think it is necessary to consider the tax rate or system in measuring tax assets and liabilities.

Question 13 – Allocation of tax to components of comprehensive income and equity

IAS 12 and SFAS 109 require the tax effects of items recognised outside continuing operations during the current year to be allocated outside continuing operations. IAS 12 and SFAS 109 differ, however, with respect to the allocation of tax related to an item that was recognised outside continuing operations in a prior year. Such items may arise from changes in the effect of uncertainty over the amounts reported to the tax authorities, changes in assessments of recovery of deferred tax assets or changes in tax rates, laws, or the taxable status of the entity. IAS 12 requires the allocation of such tax outside continuing operations, whereas SFAS 109 requires allocation to continuing operations, with specified exceptions. The IAS 12 approach is sometimes described as requiring backwards tracing and the SFAS 109 approach as prohibiting backwards tracing.

The exposure draft proposes adopting the requirements in SFAS 109 on the allocation of tax to components of comprehensive income and equity. (See paragraphs BC90–BC96 of the Basis for Conclusions.)

Question 13A

The exposure draft deals with allocation of tax to components of comprehensive income and equity in paragraphs 29-34. The Board intends those paragraphs to be consistent with the requirements expressed in SFAS 109.

Do you agree with the proposed requirement? Why or why not?

EFRAG's response to question 13 and 13A

64 We think the requirements on the allocation of tax expense/benefit are overly prescriptive, add undue complexity to the way tax allocation is carried under IAS 12, and will not significantly improve the information that will be provided. In addition, we do not support the proposal to eliminate "backwards tracing", because we think the improved information it provides justifies any minor incremental effort the approach involves.

65 We do not support the proposed approach. In our view, the current "backwards tracing" approach in IAS 12 is conceptually superior to the US GAAP approach and provides more relevant information.

66 The IASB has not argued that prohibiting backwards tracing would result in an improvement to financial reporting. Also, EFRAG is not convinced that backwards tracing is as difficult in practice as the IASB seems to be suggesting. We agree that it can be arbitrary, but we think all allocation methods are in some way arbitrary. (The IASB seems to accept this in BC93 when it states that there is no non-arbitrary way of allocating tax in certain situations.) But most important of all, we think the financial reporting will be better – in other words, the information provided will be more useful - if the allocation of tax continued to follow the underlying – in other words by applying 'backward tracing'. We think the improved information backward tracing provides justifies any minor incremental effort the approach involves.

67 The additional detailed guidance is attempting to address some very complicated tax situations, which indeed some entities may encounter in practice and aims at enhancing consistency of information. While this guidance might indeed address those situations, it does entail a fair amount of very detailed and prescriptive rules. In our view, those rules add unnecessary complexity to the allocation process in these already complicated tax situations. We are also concerned that the prescriptive nature of the proposed allocation method seems likely to result in greater complexity for even the less complicated tax allocation situations.

<u>EFRAG's overall conclusion</u>

68 Overall, we do not support the ED's proposal.

69 We believe backward tracing is the better allocation method by providing more useful information, and we are very concerned about the added complexity resulting from the additional allocation guidance. We do not think the greater consistency promised by the detailed rules will be a significant overall advantage, and therefore favour the more principle based approach of IAS 12.

Question 13B

The exposure draft also sets out an approach based on the IAS 12 requirements with some amendments. (See paragraph BC 97 of the Basis for Conclusion).

Would those paragraphs produce results that are materially different from those produced under the SFAS 109 requirements? If so, would the results provide more or less useful information than that produced under SFAS 109? Why?

EFRAG's response to question 13B

70 We think the results under the alternative approach <u>would</u> be different from those produced under SFAS 109 when a tax event occurs that involves backwards tracing. That is because this alternative approach retains backwards tracing while the SFAS 109 approach does not.

71 As discussed above in our response to the previous question, we prefer retaining backwards tracing because we believe it provides more useful information. In particular, if a tax amount is recognised in the current year that relates to a prior period transaction recognised outside continued operations, we believe it is more

useful to present the tax amount recognised on the same basis as the transaction that gave rise to the tax rather than the outcome under SFAS 109.

Question 13C

Do you think such an approach would give more useful information than the approach proposed in paragraphs 29-34? Can it be applied consistently in the tax jurisdictions with which you are familiar? Why or why not?

EFRAG's response to question 13C

72 As previously mentioned, we prefer retaining backwards tracing because we believe it provides more useful information. However, we do not support the alternative approach because it retains the additional rules-based guidance in the ED to cover the 'gaps' in IAS 12, which we expressed significant concerns with in our response to Question 13A. In our view, the requirements in the ED will result in an allocation method that is more difficult than we believe is necessary. For that reason, we favour retaining IAS 12's more principle based approach.

73 Having said that, our view is that the proposal can be applied consistently in the tax jurisdictions with which we are familiar, albeit with a high degree of implementation cost for preparers.

Question 13D

Would the proposed additions to the approach based on the IAS 12 requirements help achieve a more consistent application of that approach? Why or why not?

EFRAG's response to question 13D

74 We think the proposed additions in the ED, under either the proposed approach or the alternative approach, would probably help provide greater consistency of information between entities in respect to tax allocation; namely because of the complicated set of prescribed allocation steps and procedures involved. However, unlike recognition and measurement matters, we do not believe it is a priority for an allocation method to be exactly the same between entities, particularly in light of the complexity introduced. In our view, the proposal risks introducing too much complexity without providing corresponding benefits to users.

Question 14 – Allocation of current and deferred taxes within a group that files a consolidated tax return

IAS 12 is silent on the allocation of income tax to entities within a group that files a consolidated tax return. The exposure draft proposes that a systematic and rational methodology should be used to allocate the portion of the current and deferred income tax expense for the consolidated entity to the separate or individual financial statements of the group members. (See paragraph BC100 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

EFRAG's response to question 14

75 EFRAG agrees with the proposal. We also support the use of a systematic and rational methodology to allocate tax expenses between those entities, as we believe this guidance is both principle-based and encourages consistency in its application.

Question 15 - Classification of deferred tax assets and liabilities

The exposure draft proposes the classification of deferred tax assets and liabilities as current or non-current, based on the financial statement classification of the related non-tax asset or liability. (See paragraphs BC101 and BC102 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

EFRAG's response to question 15

76 We do not agree with this proposal. We think the way assets and liabilities are classified in the statement of financial position should depend on which classification will provide information that is most useful. Although the IASB argues (BC102) that its proposal will "provide more useful information" than the current IAS 12, it does not explain why that it is so nor why other alternative ways of classifying deferred tax assets and liabilities were rejected.

77 In our view, probably the best presentation would be to base the current and non-current classification on the expected timing of settlement or recovery of the tax cash flows, because classification is based on a liquidity notion. Classifying deferred taxes under the proposal based on the underlying item that gives rise to the deferred tax amount will not always reflect the expected timing of tax payments and potential tax benefits. For example, significant deferred tax liabilities associated with property, plant and equipment may reverse in the current year and trigger current tax payment, yet these deferred tax liabilities would not be classified as current. To this end, a model based on scheduling the turnaround of deferred tax would most likely produce the more accurate information. However, since deferred taxes are not actually settled or recovered but instead reverse, even though this approach would not be completely accurate. In our view, any alternative attempt at greater precision would require not only detailed scheduling of the future reversals of temporary differences but also forecasting subsequent tax payments and we are not convinced that such an approach is at all practical.

Question 16 – Classification of interest and penalties

IAS 12 is silent on the classification of interest and penalties. The exposure draft proposes that the classification of interest and penalties should be a matter of accounting policy choice to be applied consistently and that the policy chosen should be disclosed. (See paragraph BC103 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

EFRAG's response to question 16

78 We are broadly in agreement with the proposed approach because disclosure as an accounting policy helps ensure the classification is consistently applied by entities.

79 We also agree with the IASB's decision not to require disclosure of the amounts of interest and penalties to be disclosed because IAS 1 *Presentation of Financial Statements* should in principle "capture" this type of information when the amounts involved are material.

Question 17 – Disclosures

The exposure draft proposes additional disclosures to make financial statements more informative. (See paragraphs BC104–BC109 of the Basis for Conclusions.) Do you agree with the proposals? Why or why not?

The Board also considered possible additional disclosures relating to unremitted foreign earnings. It decided not to propose any additional disclosure requirements. (See paragraph BC110 of the Basis of Conclusions.)

Do you have any specific suggestions for useful incremental disclosures on this matter? If so, please provide them.

EFRAG's response to question 17

80 EFRAG welcomes the approach taken by the ED to take a fresh look at which disclosures might be provide useful information to users, without adding unnecessarily to the voluminous amounts of information required by IAS 12. We broadly agree with the additional disclosures proposed in the ED generally for the reasons stated in the IASB's Basis for Conclusion. However, we have some concerns.

81 We note that in existing IAS 12, the IASB explains that if an entity operates in various tax jurisdictions, it may be more meaningful to use the 'aggregate' method by using the domestic tax rate in each individual jurisdiction, instead of the parent company's domestic rate. The Basis for Conclusions in the ED does not provide any convincing rationale as to why the parent's rate is preferable to the aggregate tax rate. We continue to believe it is more meaningful in some situations to use the aggregated tax rate. In other situations it seems more meaningful to use the parent's rate, and therefore we disagree with the ED and we would prefer to require the use of the more meaningful rate.

82 We have a significant concern with the potential effects of the increased disclosures on the position of the reporting entity. In this respect, we would like to point to the practical difficulties involved if the disclosures provided by an entity which could jeopardise its position vis-à-vis the tax authorities. For this reason, we encourage the IASB to select a realistic approach that is feasible in this respect.

83 The IASB decided not to propose additional disclosure requirements on un-remitted foreign earnings. We note that paragraph B32 of the ED changes the requirement to account for the tax effects arising on future distributions (see Question 10 of this letter). The IASB is seeking views from constituents on what information would be useful to users in relation to the potential future tax effects of undistributed reserves. Irrespective of this change in the accounting, it is our understanding from the discussions we have had with users of financial statements that information about the potential future tax effects of undistributed reserves is important to them.

Question 18 – Effective date and transition

Paragraphs 50–52 of the exposure draft set out the proposed transition for entities that use IFRSs, and paragraph C2 sets out the proposed transition for first-time adopters. Paragraph 50 of the ED refers to the "opening balance sheet of the statement of financial position for the first annual period starting on or after (date to be inserted after exposure". (See paragraphs BC111–BC120 of the Basis for Conclusions.)

Do you agree with these proposals? Why or why not?

EFRAG's response to question 18

84 We broadly support the transitional requirements and the IASB's intended approach in BC114, which in our view indicates that the proposals are to be applied prospectively.

85 EFRAG's general policy is to argue for retrospective application of IFRS. However, given that the proposals require a considerable amount of work to recalculate prior years' figures and it might sometimes be impossible to get information from prior years. For this reason, we support prospectively application of the proposed requirements. However, we have some concerns with the language used in paragraphs 50-52 of the ED. We have been informed by some constituents might read these paragraphs to mean that the requirements are to be applied retrospectively – in other words they should be applied to the first comparative period presented. Having considered BC114, we think that the IASB did not intend retrospectively application. We recommend the IASB clarify this point.

Other comments

86 We have the following additional matters which are not specifically addressed in the questions the IASB has included in its Invitation to Comment.

(a) We are concerned that the changed structure of the ED will make applying the requirements more difficult compared to the existing standard, mainly because although the ED describes the principles in the standard itself, it forces the reader to refer continuously to the application guidance as it is actually the latter that contains the fundamental requirements that the ED proposes to be adopted.

(b) We are disappointed that it was decided not to re-examine the question of deferred tax on share-based payments as part of the project.

(c) The illustrative examples can be helpful, but more are needed to address some of the more difficult issues. In addition, we do not believe that staff examples should be a feature of the final standard, as their status is unclear under IFRS; any essential examples should only be included in the implementation guidance that has been approved by the Board.

(d) We note that the IASB intends to change IAS 34 in a consequential amendment. No explanation is given in the Basis for Conclusions and, as we fail to see any need for change, would require the Board at least to explain their intention.

(e) Some consequential amendments are needed to other standards that are not shown in the ED such as to IFRS 3 (2008).