

EFRAG – European Financial Reporting Advisory Group
35 Square de Meeûs
B-1000 Brussels
Belgium
Att.: Mr. Jean-Paul Gauzes, Board President

By e-mail: Commentletters@efrag.org

25 October 2019

Dear Jean-Paul,

**EFRAG Draft Comment Letter on the IASB’s Exposure Draft ED/2019/5,
Deferred Tax related to Assets and Liabilities arising from a Single
Transaction. Proposed amendments to IAS 12**

The Danish Accounting Standards Committee (‘DASC’) set up by FSR – danske revisorer did consider the ED during its August meeting and is pleased to respond to EFRAG’s Draft Comment Letter on the IASB exposure draft ‘Deferred Tax related to Assets and Liabilities arising from a Single Transaction’.

While we support the efforts of the IASB to address an issue that has been a source of diversity in practice and that is likely to increase as a result of the application of IFRS 16 Leases, we have some concerns outlined below.

In our experience, most entities faced with the issue either apply IAS 12 separately to the asset and liability resulting in no deferred taxes recognised on initial recognition or subsequently or they apply the requirements of IAS 12 to the transaction as a whole resulting in no deferred taxes recognised initially because the transaction results in a nil net asset, but with deferred taxes recognised subsequently as the carrying amount of the asset and liability diverge. In DASC’s view, either of these approaches is acceptable under IAS 12 and diversity in practice could have been addressed through an interpretation of IAS 12 (as discussed in the ED BC13 to BC15).

DASC agrees with the concerns expressed in EFRAG’s draft comment letter. We suggest that EFRAG considers if the main message in the comment letter could say that the IASB should consider if there are other/better ways of addressing the issue and therefore should not proceed with the exposure draft.

Our concerns with the ED relate to the following:

1. We - as EFRAG also expresses in paragraph 22 of its draft comment letter - have serious concerns with the conceptual issues that introduction of the cap suggested in paragraph 22A(b) brings about. The conceptual inconsistency with the general principle in IAS 12 is such a big problem that we do not think the IASB can proceed without reconsidering this again.
2. We - as EFRAG - question whether the IASB’s approach (‘gross method’) is the best approach given its complexity. It tabs into the conceptual inconsistency mentioned above. In addition, we question the benefits of a requirement for

FSR – danske revisorer
Kronprinsessegade 8
DK - 1306 København K

Telefon +45 3393 9191
fsr@fsr.dk
www.fsr.dk

CVR. 55 09 72 16
Danske Bank
Reg. 4183
Konto nr. 2500102295

entities to separately track the reversal of the taxable and deductible temporary differences in subsequent periods. It both increases complexity and the cost for entities to track these taxable and deductible temporary differences.

The DASC did also consider whether the approach is in fact a pure 'gross method' as suggested by the IASB, or it is more akin to a hybrid or mixed approach which - in our view - is even more difficult to justify conceptually and adds complexity and costs in practice. Thus, we understand the model to require the following steps:

- First, an entity evaluates the deferred tax assets (DTA) and the deferred tax liability gross ('gross approach').
- Then, the entity compares the DTA and the DTL net to evaluate whether the suggested cap (in para 22A(b)) applies ('modified net approach').
- Finally, the entity applies the initial recognition exemption (IRE) on the parts of the DTL in excess of the DTA ('modified IRE approach'). Contrary to this, the ED does not consider a scenario where the DTA exceed the DTL.

Considering that this has to be done on a contract-by-contract basis, results in a complex and costly method despite the fact that the 'gross method' on the face appears tempting.

In DASC's view, a far better and less burdensome solution would be to amend IAS 12 to say that the initial recognition exemption is not applicable to lease transactions (as alluded to in BC13(b)) and decommissioning transactions.

- 0 -

If you have any questions and comments, please do not hesitate to contact Jan Peter Larsen or the undersigned.

Kind regards

Torben Johansen

Chairman of the Danish Accounting
Standards Committee
of FSR – danske revisorer

Ole Steen Jørgensen

Technical Adviser