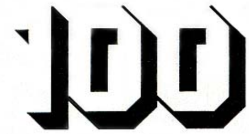


Financial Reporting Committee

Anne McGeachin
Senior Project Manager
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

22 September 2009

Dear Ms McGeachin,

Exposure Draft: Income Tax

We are pleased to submit our comments on the above proposals.

Who we are

The Hundred Group represents the views of the finance directors of the UK's largest companies drawn largely, but not entirely, from the constituents of the FTSE100 Index. Our members are the finance directors of companies whose market capitalisation collectively represents over 80% of that of companies listed on the London Stock Exchange. Whilst this letter expresses the views of The Hundred Group of Finance Directors as a whole, they are not necessarily those of our individual members or their respective employers.

Summary

A question of priorities

We are concerned that the IASB's work plan is too demanding and we do not consider tax accounting to be an urgent matter in the context of the current financial crisis. We would therefore have preferred that the Board had delayed publication of these proposals.

We are opposed to the proposals

We recognise that IAS12 is complicated and difficult to apply to some situations. However, we do not believe that these proposals represent any improvement. For the reasons explained in our answers to the Board's specific questions, we believe that they represent a retrograde step to a more complex, rules-based approach that less faithfully represents commercial reality than IAS12. Moreover, we are concerned that the proposals would provide information to the tax authorities that could be seriously prejudicial to the interests of capital providers.

We appreciate that tax accounting is on the convergence agenda and that the Board feels under some pressure to produce an accounting standard that converges with SFAS109. However, we do not believe that the Board has properly explained why it believes that convergence with SFAS109 would represent an improvement in financial reporting under IFRSs.

Measurement of the tax basis

We contend that in the majority of cases (where the asset will be recovered by use), the assumption of sale in determining the tax basis would be inconsistent with the Board's proposed Conceptual Framework because it would fail to represent faithfully the economic substance of an entity's position.

We believe that faithful representation must be based on the best estimate of the entity's future cash flows. Where an entity intends to recover an asset by use in its business, determining the tax basis of that asset on the assumption that it will be sold would not reflect commercial reality and therefore would not, in our view, provide a faithful representation of the entity's deferred tax assets or liabilities.

We suggest that the tax basis should be determined on the assumption of continuing use unless the asset concerned is classified as held for sale in accordance with IFRS5 in which case the tax basis should be determined on the assumption of sale. We believe that this approach would both faithfully represent economic reality and satisfy those Board members who are concerned about relying on management's intentions rather than commitments.

Measurement of uncertain tax positions

We do not support the probability-weighted estimate (or expected value) approach to measuring uncertain tax positions. We are concerned that users will wrongly believe that the outcome is more accurate that that resulting from a less complex approach.

We believe that the provision for uncertain tax positions should represent the individual most likely outcome, i.e. that there should be no change from the requirement of paragraph 46 of IAS12 which states "current tax liabilities shall be measured at the amount expected to be paid to the taxation authorities". We contend that this 'most likely' approach is consistent with IAS37. In its discussion of making a 'best estimate' of the expenditure required to settle an obligation, IAS37 specifies the use of 'expected value' where the provision being measured involves a large population of items, but where a single obligation is being measured it states that "the individual most likely outcome may be the best estimate of the liability". ". We are, of course, aware that nearly four years ago the IASB proposed revisions to IAS37, but in our comments on those proposals we similarly opposed the indiscriminate use of the expected value approach.

We are concerned that the Board's proposals on the measurement of uncertain tax positions may be seriously prejudicial to the interests of capital providers. In particular, where the expected value approach leads to the recognition of a provision that is higher than the outcome that is considered most likely by management, the entity's position in negotiating with the tax authorities could be undermined.

Allocation of tax to components of comprehensive income and equity

We recognise that the proposed approach would be easier to apply in practice than the 'backwards tracing' approach required under IAS12, but we do not agree with it. We do not believe that the proposal is principles-based and the Board has not explained why it believes that it is preferable to the existing requirements of IAS12.

We believe that it is appropriate that tax on items that are recognised in equity is also recognised in equity and any subsequent change in the tax recognised in relation to such items is also recognised in equity. We do not believe that it is appropriate for subsequent changes in tax on items recognised in equity to be recognised in continuing operations. Items recognised in equity can be significant and we are concerned about the effect of the Board's proposals on the volatility of the effective tax rate on continuing operations.

Disclosure requirements

We believe that the proposals are inconsistent with the Board's proposed Conceptual Framework which sets out the objective of financial reporting, the emphasis of which is on providing information that is decision-useful to capital providers. We are very concerned that there are aspects of the Board's tax proposals that move away from this objective and provide information that is of more use to the taxation authorities than capital providers. Moreover, they may well be seriously prejudicial to the interests of capital providers.

Layout of the proposals

We believe that much of Appendix B should be incorporated in the body of any revised standard and urge the Board to reconsider the layout of the proposals.

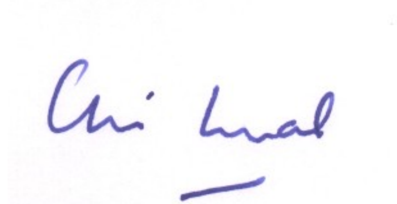
The way forward

We believe that, in due course, there should be a fundamental review of tax accounting under IFRSs which should consider alternative methods of accounting for deferred tax (for example, the flow through method).

Until then, we do not believe that there is a need for significant change to IAS12. Rather, the Board should seek to address those aspects of IAS12 that are causing difficulties in practice. The Board must appreciate that its current proposals would impose a significant burden of transition on preparers and that they would be loathe to incur that burden in the knowledge that accounting for tax is likely to change significantly within a few years.

Please feel free to contact me if you wish to discuss our comments on the proposals.

Yours sincerely,



Chris Lucas
Chairman
The Hundred Group - Financial Reporting Committee

APPENDIX

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.

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

We strongly disagree with this aspect of the proposals.

We are concerned that in its discussion of the proposals in paragraphs BC17 to BC23, the Board does not provide any support for the principle underlying this proposal. It merely states that this is the definition of the tax basis that is used in US GAAP and the contends that "it is well understood and applied consistently" in that context and is "clearer and less open to different interpretations that the definition of tax base in IAS12".

We contend that in the majority of cases (where the asset will be recovered by use), the assumption of sale in determining the tax basis will actually be inconsistent with the Board's proposed Conceptual Framework.

In September 2008, the Board issued an exposure draft which contained its proposals on the aspects of the Conceptual Framework dealing with the objective of financial reporting (Chapter 1) and the qualitative characteristics of financial information (Chapter 2). In its discussion of the decision-usefulness as the objective of financial reporting, paragraph OB15 of that exposure draft states "Capital providers are interested in financial reporting because it provides information that is useful for making decisions…….When making those decisions, capital providers are interested in assessing the entity's ability to generate net cash inflows." In its discussion of qualitative characteristics paragraph QC2 of that exposure draft states "For financial information to be useful, it must possess two fundamental qualitative characteristics – *relevance* and *faithful representation*" and paragraph QC7 went on "Financial information that faithfully represents an economic phenomenon depicts the economic substance of the underlying transaction, event or circumstances".

We believe that faithful representation must be based on the best estimate of the entity's future cash flows using assumptions about the future that reflect the economic substance of the entity's position (or commercial reality). Where an entity intends to recover an asset by use in its business, determining the tax basis of that asset on the assumption that it will be sold would not reflect commercial reality and therefore would not, in our view, provide a faithful representation of the entity's deferred tax assets or liabilities.

We also contend that the proposal is inconsistent with other IFRSs (in particular, IFRS5 which permits an asset to be classified as held for sale only if the entity is committed to a sale and the sale is expected to be completed within 12 months).

We suggest that the tax basis should be determined on the assumption of continuing use unless the asset concerned is classified as held for sale in accordance with IFRS5 in which case the tax basis should be determined on the assumption of sale. We believe that this approach would both faithfully represent economic reality and satisfy those Board members who are concerned about relying on management's intentions rather than commitments.

We would remind the Board that the difference between the tax basis determined on the basis of sale and that determined on the basis of use can be significant (not least because the method of recovery can affect which tax regime the recovery falls into, i.e. income or capital gains).

Question 2 – Definitions of tax credit and investment tax credit

The exposure draft would introduce definitions of tax credit and investment tax credit.

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

We do not disagree with the proposed definitions but we suggest that illustrative examples are provided to ensure consistent treatment of such credits in jurisdictions where they are defined differently in tax legislation.

Question 3 – Initial recognition exception

The exposure draft proposes eliminating the initial recognition exemption in IAS12. 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 accounting 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.

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

We do not support the proposal.

We found this aspect of the proposals particularly difficult to understand and struggle to see how they would improve financial reporting (in many instances, the balance sheet would be "grossed up" but the net result would be the same as under IAS12).

We believe that preparers will face considerable practical difficulty in assessing the tax position of other 'market participants' in order to determine whether there are any 'entity-specific tax effects'.

We would welcome the Board's views on how this proposal sits with the desire to reduce complexity in financial statements.

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

IAS12 includes an exception to the temporary difference approach for some investment 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 of SFAS109 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 would not be recognised. Temporary differences associated with branches would be treated in the same way as temporary differences associated with investments in subsidiaries. The exception in IAS12 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.

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?

We do not agree with the proposal.

We believe that the basis for recognising deferred tax assets and liabilities in relation to investments in subsidiaries, branches and associates and joint ventures set out in paragraphs 38 to 45 of IAS12 faithfully represents the economic substance of these arrangements.

We do not believe that the Board has justified why it would permit an exception for foreign subsidiaries and joint ventures, but not for domestic ones. We do not consider it appropriate to apply different accounting treatments on the basis of location.

Question 5 – Valuation allowances

The exposure draft proposes a change to the approach to the recognition of deferred tax assets. IAS12 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.

Question 5A

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

We are not opposed to this change in presentation (the deferred tax asset shown on the balance sheet would be unchanged compared with IAS12).

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?

While we believe that the recognition of a valuation allowance could be expressed more elegantly, we are not opposed to the proposal (as we believe that it would not of itself give rise to any change in the deferred tax asset shown on the balance sheet compared with IAS12).

Paragraph 24 of IAS12 states that "A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised". On the understanding

that in this context the term ‘probable’ and ‘more likely than not’ are interchangeable, we believe that the effect of a valuation allowance determined on the proposed basis will reduce the deferred tax asset recognised to the amount recognised under IAS12.

Question 6 – Assessing the need for a valuation allowance

Question 6A

The exposure draft incorporates guidance from SFAS109 on assessing the need for a valuation allowance.

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

We are not opposed to this proposal.

Question 6B

The exposure draft adds a requirement on the cost of implementing a tax strategy to realise a deferred tax asset.

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

We do not agree with the proposed requirement because it confuses taxation with costs that are recognised elsewhere in the financial statements.

We do not believe that the cost of implementing a tax strategy meets the definition of tax expense set out in Appendix A (because it does not meet the definition of current tax or deferred tax).

Question 7 – Uncertain tax positions

IAS12 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 asset 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.

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

We oppose this aspect of the proposals because we believe that the probability-weighted estimate (or expected value) approach is difficult to apply in practice and can be misleading to users of financial statements.

In many cases, an uncertain tax position will have one of two possible outcomes. If the expected value approach is used it will result in a provision that does not reflect a possible outcome. Where an uncertain tax position has a range of possible outcomes it is not practicable to assign probabilities to each of those possible outcomes. Such an approach can only ever be educated guesswork and would lend a spurious accuracy to financial statements.

We believe that the provision for uncertain tax positions should represent the individual most likely outcome, i.e. that there should be no change from the requirement of paragraph 46 of IAS12 which states “current tax liabilities shall be measured at the amount expected to be paid to the taxation authorities”. We contend that this ‘most likely’ approach is consistent with IAS37. In its discussion of making a ‘best estimate’ of the expenditure required to settle an obligation, IAS37 specifies the use of ‘expected value’ where the provision being

measured involves a large population of items, but where a single obligation is being measured it states that "the individual most likely outcome may be the best estimate of the liability". We are, of course, aware that nearly four years ago the IASB proposed revisions to IAS37, but in our comments on those proposals we similarly opposed the indiscriminate use of the expected value approach.

We are concerned that the Board's proposals on the measurement of uncertain tax positions may be seriously prejudicial to the interests of capital providers. In particular, where the expected value approach leads to the recognition of a provision that is higher than the outcome that is considered most likely by management, the entity's position in negotiating with the tax authorities could be undermined.

We return to the issue of the Board's handling of the respective interests of capital providers and the taxation authorities in our answer to Question 17.

Question 8 – Enacted or substantively enacted rate

IAS12 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.

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

We believe that this represents an improvement on the guidance provided in paragraph 48 of IAS12. However, we suggest that the last sentence of paragraph B26 of the exposure draft is deleted as confirmation of the position in the US is not appropriate in an international accounting standard.

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, IAS12 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, i.e. 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.

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

For the reasons set out in our answer to Question 1, we strongly disagree with the proposal to determine the tax basis of an asset on the assumption that the entity will recover the asset by sale.

Consistent with this view, we similarly oppose this aspect of the proposals and believe that the approach taken in IAS12 is appropriate, i.e. deferred tax assets and liabilities should be measured using the tax rate that is consistent with their expected manner of recovery. We suggested in our answer to Question 1 that it should be assumed that an asset will be recovered by use unless the asset concerned is classified as held for sale in accordance with IFRS5.

Question 10 – Distributed or undistributed rate

IAS12 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.

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

We disagree with this aspect of the proposals.

We believe that the proposal is inconsistent with IAS10 which allows a distribution to be recognised only when it has been 'appropriately authorised' and it is also inconsistent with the proposed approach to determining the tax basis in which management intent is dismissed as an acceptable basis.

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. SFAS109 gives examples of 'special deductions' available in the US and requires that 'the tax benefits of special deductions ordinarily is recognised no earlier than the year in which those special deductions are deductible on the tax return'. SFAS109 is silent on the treatment of other deductions that do not form part of a tax basis.

IAS12 is silent on the treatment of tax deductions that do not form part of a tax basis and the exposure draft proposes no change.

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 requirement do you propose, and why?

We are not experts in US taxation and are not familiar with these 'special deductions'. We suggest that, as a general principle, deductions should not be anticipated if they are in any way uncertain, e.g. permitted in a gratuitous or one-off basis.

We suggest that the Board establishes whether 'special deductions' are a significant issue for US companies on which they would need guidance if they were to be permitted to adopt IFRSs.

Question 12 – Tax based on two or more systems

In some jurisdictions, an entity may be required to pay tax based on one or 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.

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

While we welcome the Board's acknowledgement of this issue, we suggest that an illustrative example may be useful (perhaps drawing from the practical experience of entities that are already dealing with this issue under IAS12).

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

IAS12 and SFAS109 require the tax effects of items recognised outside continuing operations during the current year to be allocated outside continuing operations. IAS12 and SFAS109 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 an entity. IAS12 requires the allocation of such tax outside continuing operations, whereas SFAS109 requires allocation to continuing operations, with specified exceptions. The IAS12 approach is sometimes described as requiring backwards tracing and the SFAS109 approach as prohibiting backwards tracing.

The exposure draft proposes adopting the requirements of SFAS109 on the allocation of tax to components of comprehensive income and equity.

Question 13A

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

We recognise that the proposed approach would be easier to apply in practice that the 'backwards tracing' approach required under IAS12, but we do not agree with it. We do not believe that the proposal is principles-based and the Board has not explained why it believes that it is preferable to the existing requirements of IAS12.

We believe that it is appropriate that tax on items that are recognised in equity is also recognised in equity and any subsequent change in the tax recognised in relation to such items is also recognised in equity. We do not believe that it is appropriate for subsequent changes in tax on items recognised in equity to be recognised in continuing operations. Items recognised in equity can be significant and we are concerned about the effect of the Board's proposals on the volatility of the effective tax rate on continuing operations.

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 SFAS109

Question 13B

Would those paragraphs produce results that are materially different from those produced under the SFAS109 requirements? If so, would the results provide more or less useful information that that produced under SFAS109? Why?

From our perspective, this question is academic because we do not agree with the SFAS109 approach on the allocation of tax.

The exposure draft also sets out an approach based on the IAS12 requirements with some amendments.

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?

While the alternative proposal is preferable in principle to the SFAS109 approach that prohibits backwards tracing, we believe that the Board should focus its efforts on providing

more meaningful guidance on allocating tax to items recognised in equity and the application of backwards tracing under IAS12.

We suggest that the Board bases such guidance on discussions with preparers and practitioners on how they are actually tackling tax allocation in practice under IAS12.

Question 13D

Would the proposed additions to the approach based on the IAS12 requirements help achieve a more consistent application of that approach? Why or why not?

If you introduce prescriptive rules it follows that you will tend to achieve consistency of application. We suspect, however, that prescriptive rules will not fit all tax jurisdictions and it may therefore be better to base the guidance on principles.

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

IAS12 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.

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

While we agree with the proposal in principle, we believe that there are likely to be difficulties in applying it in practice in some tax jurisdictions.

Under UK legislation, for example, there may be instances where tax losses are surrendered by one group company to another without payment. Say, for example, a subsidiary has incurred a tax loss which it surrenders to its holding company for no payment. In this situation, paragraph B37 of the proposals would require the holding company to recognise a capital contribution from its subsidiary. Similarly, there could be situations in which capital contributions are recognised between fellow subsidiaries. We believe that this gives a counter-intuitive result which arises from differences between the tax structure and the legal ownership. We believe that provided the tax group as a whole recognises the amount of tax owed to or receivable from the tax authorities, it is sufficient to disclose the effect of intra-group transfers of tax losses without payment in the notes to the financial statements of the relevant entities.

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.

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

We do not agree with the proposal because we believe that it would be misleading to suggest that the deferred tax will be realised in line with the underlying asset or liability. Ideally, deferred tax assets and liabilities would be classified according to when the underlying temporary differences are expected to reverse but this approach would be difficult to apply in practice because there is often uncertainty as to when the temporary differences will reverse (the reason why deferred tax assets and liabilities are not required to be discounted).

In most cases, all, or substantially all, of a deferred tax asset or liability will be realised more than one year after the accounting date. In the absence of a practical alternative, we therefore believe that there is no reason why there should be any change in the existing classification under IAS12, i.e. deferred tax assets and liabilities should be classified as non-current.

Question 16 – Classification of interest and penalties

IAS12 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.

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

We do not agree with the proposals on the classification of interest and penalties because we do not believe that there are grounds for an accounting policy choice in respect of these items.

In Appendix A of the exposure draft, tax expense is defined as “the aggregate amount included in comprehensive income or equity for the reporting period in respect of current tax and deferred tax”. Current tax and deferred tax are defined as “income tax payable (refundable/recoverable) in respect of the taxable profit (tax loss)”. We are therefore not convinced that the classification of interest and penalties can be an accounting policy choice. We recommend that the Board makes it clear that the classification of interest and penalties should faithfully represent the nature of these costs. For example, we would envisage that penalties that relate to the assessment by the tax authorities of uncertain tax positions should be classified as tax expense whereas penalties that relate to the late filing of tax returns should be classified as administrative expenses.

We note that the Board also proposes that the classification of exchange differences on foreign tax assets and liabilities should be an accounting policy choice.

IAS21 ‘The Effects of Changes in Foreign Exchange Rates’ is silent on the classification of foreign currency translation gains and losses, but we are aware that some practitioners advise that the classification of foreign currency exchange gains and losses should follow the nature of the underlying transactions. Applying this approach would mean that exchange differences on foreign tax assets and liabilities would be classified as income tax expense. We would welcome more definitive guidance from the Board on the classification of exchange differences on foreign tax assets and liabilities.

Question 17 – Disclosures

The exposure draft proposes additional disclosures to make financial statements more informative.

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

The Board has also considered possible additional disclosures related to unremitted foreign earnings. It decided not to propose any additional disclosure requirements.
Do you have any specific suggestions for useful incremental disclosures on this matter? If so, please provide them.

In our answer to Question 1, we referred to the Board’s proposed objective of financial reporting the emphasis of which is on providing information that is decision-useful to capital

providers. We are very concerned that there are aspects of these proposals that move away from this objective and provide information that is of more use to the taxation authorities than capital providers. Moreover, they may well be seriously prejudicial to the interests of capital providers. We cite in particular:

a) the proposed measurement of uncertain tax positions (see our answer to Question 7);

b) the proposed disclosure of adjustments to current tax of prior periods reflecting the effect of possible outcomes of a review by the tax authorities (paragraph 41(b);

c) the effect on deferred tax expense of any change in the effect of possible outcome of a review by the tax authorities (paragraph 41(e));

d) the description of any event or change in circumstances that causes a change in the amount of any valuation allowance (paragraph 47);

e) the effect of transfers of assets and liabilities within a consolidated group between taxing jurisdictions with different tax rates (paragraph 48(d));

f) disclosure of the major sources of estimation uncertainty relating to income tax including possible financial effects of unresolved disputes with the tax authorities (paragraph 49).

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.

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

If you support an alternative approach, please describe the approach and explain why you support it.

We agree with the proposal that any revised standard should be applied prospectively but we would also encourage the Board to extend as far as possible the period between the issuance of the standard and it becoming mandatory because it is likely that a considerable amount of work will be required to effect transition.