ASC
ACCOUNTING STANDARDS COUNCIL

9 November 2010

International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
United Kingdom

(By online submission)

Dear Sirs

RESPONSE TO EXPOSURE DRAFT ON DEFERRED TAX: RECOVERY OF UNDERLYING ASSETS

The Accounting Standards Council (ASC) appreciates the opportunity to comment on the Exposure Draft on Deferred Tax: Recovery of Underlying Assets (the ED) issued by the International Accounting Standards Board (the IASB) in September 2010.

We appreciate the IASB's efforts to provide a practical approach to address the application issue of the existing IAS 12 and are generally supportive of the proposals in the ED.

Our comments on the specific questions to the ED are as follows:

Question 1 – Exception to the measurement principle
The Board proposes an exception to the principle in IAS 12 that the measurement of deferred tax liabilities and deferred tax assets should reflect the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities. The proposed exception would apply when specified underlying assets are remeasured or revalued at fair value.

Do you agree that this exception should apply when the specified underlying assets are remeasured or revalued at fair value? Why or why not?

Subject to our comments under question 2 in relation to the categories of underlying assets to be covered, we agree that the exception to the measurement principle in IAS 12 should apply when the specified underlying assets are remeasured or revalued at fair value. The ED proposal provides a practical approach to address the difficulty or subjectivity faced by entities in determining the expected manner of recovery of such underlying assets, especially in situations where the timing of sale is dependent on market situations and opportunities available.

Address: The Secretariat, Accounting Standards Council,
c/o Ministry of Finance, 100 High Street, #10-01, The Treasury, Singapore 179434.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6332 7435

Question 2 – Scope of the exception

The Board identified that the expected manner of recovery of some underlying assets that are remeasured or revalued at fair value may be difficult and subjective to determine when deferred tax liabilities or deferred tax assets arise from:

(a) investment property that is measured using the fair value model in IAS 40;

(b) property, plant and equipment or intangible assets measured using the revaluation model in IAS 16 or IAS 38;

(c) investment property, property, plant and equipment or intangible assets initially measured at fair value in a business combination if the entity uses the fair value or revaluation model when subsequently measuring the underlying asset; and

(d) other underlying assets or liabilities that are measured at fair value or on a revaluation basis.

The Board proposes that the scope of the exception should include the underlying assets described in (a), (b) and (c), but not those assets or liabilities described in (d). Do you agree with the underlying assets included within the scope of the proposed exception? Why or why not? If not, what changes to the scope do you propose and why?

We agree that the scope of the exception should include investment property as described in (a) and (c). In our view, the proposed exception to the measurement principle in IAS 12 is clearly helpful for investment properties measured using the fair value model under IAS 40 in order to address many practice concerns in determining the expected manner of recovery of these assets.

However, for property, plant and equipment (PPE) and intangible assets, we think it is more appropriate to stick to the general measurement principles in IAS 12, to reflect the expected manner of recovery. Most PPE are held for use in the production of goods or services, hence the carrying amount of PPE would be expected to be recovered primarily through use rather than through sale, regardless of the bases used to measure the PPE. The general measurement principles in IAS 12 should therefore apply to PPE. On intangible assets, their nature is such that they are usually held for use, thus the same principle should apply. Accordingly, we think that the exception should not be broadened to PPE or intangible assets in (b) and (c).

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Question 3 – Measurement basis used in the exception
The Board proposes that, when the exception applies, deferred tax liabilities and deferred tax assets should be measured by applying a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely through sale. This presumption would be rebutted only when an entity has clear evidence that it will consume the asset's economic benefits throughout its economic life.

Do you agree with the rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale when the exception applies? Why or why not? If not, what measurement basis do you propose and why?

Subject to our comments under question 2, we agree with the rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely through sale when the exception applies. This presumption is consistent with the measurement of the underlying asset on a fair value basis that reflects the price that would be received if the asset is sold.

However, to avoid significant diversity in practice, we suggest that the IASB provides further clarification on what constitutes "clear evidence" that an entity needs to provide in order to substantiate that it would consume the asset's economic benefits throughout its useful life.

Question 4 – Transition
The Board proposes that the amendments should apply retrospectively. This requirement includes retrospective restatement of all deferred tax liabilities or deferred tax assets within the scope of the proposed amendments, including those that were initially recognised in a business combination.

Do you agree with the retrospective application of the proposed amendments to IAS 12 to all deferred tax liabilities or deferred tax assets, including those that were recognised in a business combination? Why or why not? If not, what transition method do you propose and why?

We agree with the retrospective restatement of all deferred tax liabilities or deferred tax assets within the scope of the proposed amendments, except for those that were recognised in business combinations.

We believe the proposed transitional requirement relating to business combinations that occurred in previous reporting periods could result in undue burden to entities as they would be required to recalculate the resulting goodwill arising from the business combinations, including the reassessment of goodwill for impairment or the reassessment of goodwill previously impaired. We think that such reassessments would be unduly onerous since information may no longer be available and/or it could be impossible to separate the effects of hindsight from the factors that existed at the date of the impairment test.

Consequently, we propose that changes in deferred tax liabilities or deferred tax assets arising from the proposed amendments in respect of assets acquired in business combinations that occurred in previous reporting periods be adjusted against goodwill directly. This would be in line with the IASB's intention not to cause undue burden to entities.

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Question 5 – Other comments
Do you have any other comments on the proposals?

We do not have any other comments.

We hope that our comments will contribute to the IASB's deliberation on this exposure draft. Should you require any further clarification, please contact Ms Chionh Chia Chia at chionh_chia_chia@acra.gov.sg.

Yours faithfully

Dexter Tan
Secretary, Accounting Standards Council