Rådet för finansiell rapportering

The Swedish Financial Reporting Board

RFR-rs 2010:17

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

Dear Sirs,

Re: Exposure Draft ED/2010/11 Deferred Tax: Recovery of Underlying Assets – Proposed amendments to IAS 12

The Swedish Financial Reporting Board is responding to your invitation to comment on the International Accounting Standard Board´s Exposure Draft ED/2010/11 Deferred Tax: Recovery of Underlying Assets – Proposed amendments to IAS 12.

We support the proposed change as it eliminates an uncertainty as to how the expected recovery will affect the measurement of deferred taxes. We note that the changes should be restricted only to assets carried at fair value in accordance with IAS 16, 38 and 40. At the same time we note that, for instance, assets measured at fair value in accordance with IAS 39 and IAS 41, and for which the intent is to recover the carrying value through sale, are not covered by the ED. We question this approach, which we find not to be in line with a principle-based standard. We therefore recommend the IASB to expand the scope of the standard.

The concept of clear evidence is introduced to identify that recovery is through use. We are unclear as to how and to what extent an entity is responsible for establishing such evidence. We therefore recommend the IASB to look into if the change could be implemented as an extension of the application guidance, something which could make the change more operational.

Having said the above, we note that the IASB has reacted to concerns by some of its constituents that have seen a problem with regard to measuring deferred tax balances related to investment properties measured at fair value. However, we also note with disappointment that the IASB has chosen to not go ahead with two changes proposed in the 2009 ED regarding the accounting at initial recognition and the use of the distributed rate, with which we agree. Also, since IAS 12 requires deferred tax to be recognized based on the individual entity´s perspective, there will be circumstances when, for example, a deferred tax liability is recognized which will not materialize as the group, i. e. the parent, can sell the assets, through a legal entity transaction, without tax consequences. Therefore, we believe that there are circumstances when outside basis has to be taken into consideration when establishing the applicable tax rate and

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tax base for individual assets and liabilities in the consolidated financial statements. Consequently, also for assets subject to these circumstances IAS 12 should be amended so that the financial reporting reflects that the assets will be sold and, as a consequence, the carrying value will be recovered without any tax effects.

We recommend the IASB to go ahead with further changes to IAS 12 to improve the quality of financial reporting with respect to the above.

We encourage the IASB to implement further changes in IAS12 that will eliminate the recognition of deferred taxes that are not expected to be paid. However, eventually, we are convinced that the IASB must carry out a review of the accounting for income taxes to look into if other principles, such as those in IAS 37, could be applied also in this area.

If you have any questions concerning our comments please address our Executive member Carl-Eric Bohlin by e-mail to: carl-eric.bohlin@radetforfinansiellrapportering.se

Stockholm, 4 November 2010

Yours sincerely

Anders Ullberg
Chairman