AcSB Accounting Standards Board

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Submitted electronically via www.ifrs.org

IFRS Foundation
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Canary Wharf
London E14 4HD
United Kingdom

Dear Sirs,

Re: Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Proposed amendments to IAS 12 (ED/2019/5)

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the International Accounting Standards Board's (IASB) Exposure Draft, "Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Proposed amendments to IAS 12)" issued in July 2019.

Our process

The views expressed in this letter reflect the judgments and conclusions of the AcSB. As part of our due process for these proposals, we consulted with our IFRS® Discussion Group and considered the results of this discussion when developing this letter.

Our view

We continue to strongly support the IASB in its efforts to identify and address standards implementation issues and improve the consistent application of IFRS Standards.

Overall, we agree with the intent of the proposals in the Exposure Draft as we think that the proposed amendments will address current diversity in practice and improve the comparability of financial statements. However, we think that the amendments as proposed in the Exposure Draft, specifically the guidance in paragraphs 15, 22A and 24, are unclear and should be revised to better communicate the guidance to stakeholders. Furthermore, given the complexity of this topic, we recommend that the IASB provide an illustrative example in IAS 12 to help demonstrate the application of this proposed guidance.

Our responses to your questions

The Appendix to this letter responds to the question posed in the Exposure Draft and expands on the points raised above.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact myself, Kelly Khalilieh, Director, Accounting Standards (+1 416 204 3453 or email kkhalilieh@acsbcanada.ca) or Katherine Knowlton, Principal, Accounting Standards (+1 416-204-3465 or email kknowlton@acsbcanada.ca).

Yours truly,

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About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS® Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS Standards in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Standards as applied by publicly accountable enterprises.

Our role vis-à-vis IFRS Standards

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS Standards. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS Standard to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS Standard. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.

APPENDIX

Question
Do you agree with the Board's proposal to amend IAS 12 in the manner described in the Exposure Draft? If not, why not, and what do you recommend instead?

1. We agree with the intent of the IASB's proposal to amend IAS 12 *Income Taxes* as described in the Exposure Draft in order to reduce diversity in practice and increase the comparability of financial statements. However, we are concerned that the drafting of the proposed amendments in the Exposure Draft does not clearly articulate the IASB's intent.

2. Specifically, we think the guidance in paragraph 15 is unclear, particularly because of the use of the term "except" twice within the paragraph. We also note that paragraph 15(b)(iii) refers to a situation when the transaction does not give rise to equal amounts of taxable and deductible temporary differences. However, paragraph 22A, the paragraph to which paragraph 15(b)(iii) is cross-referenced, provides guidance for the inverse situation, when the transaction does give rise to an equal amount of taxable and deductible temporary differences. Therefore, we think that this cross-reference is not required and should be removed. We also recommend a similar change is made to paragraph 24(c).

3. Furthermore, we think the guidance in paragraph 22A is also unclear. The third sentence of this paragraph states "In that situation…"; however, it is unclear to which situation this refers. We think the IASB intends to refer to the situation where the initial recognition of an asset and liability gives rise to equal amounts of taxable and deductible temporary differences. If so, we recommend revising paragraph 22A as follows:

   > A transaction that is not a business combination may lead to the initial recognition of an asset and a liability and, at the time of the transaction, affect neither accounting profit nor taxable profit (tax loss). <u>If the transaction results in e</u>~~E~~qual amounts of taxable and deductible temporary differences~~, may arise from the initial recognition of that asset and liability. In that situation,~~ on initial recognition of the transaction, an entity recognises…

4. We also recommend that the IASB consider including an illustrative example to help illustrate the application of the proposed guidance. While other implementation guidance produced by the IASB, including webinars, presentations and educational materials, would help support the application of the amendments, we note that such resources would not be as readily accessible to stakeholders as an illustrative example appended to IAS 12. Furthermore, stakeholders may not always be aware of or able to easily locate implementation guidance outside of IFRS Standards, particularly when a substantial period of time has elapsed since the initial application of an amendment.

5. Lastly, we have heard from some stakeholders that the requirement to apply the tax balances to either the asset or liability, and not consider the transaction on a net basis, is not intuitive. Therefore, we think it would be helpful for the IASB to use the Basis for Conclusions to clearly explain why a net approach would not be appropriate in accordance with the underlying principles of IAS 12.