Accounting Standards Board
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January 19, 2016

Submitted electronically via www.ifrs.org

IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

Re: Draft IFRIC Interpretation – Uncertainty over Income Tax Treatments (DI/2015/1)

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the International Accounting Standards Board's IFRS Interpretations Committee draft IFRIC Interpretation, "Uncertainty over Income Tax Treatments", issued in October 2015.

The AcSB is Canada's national accounting standard-setting body, holding the legal authority to set accounting standards in Canada. Since 2011, the AcSB has operated under the strategy of endorsing and then importing IFRS into Canada for application by publicly accountable enterprises, other than pension plans. To date, our policy has been to adopt IFRS as issued by the IASB, without modification (with the exception of deferring for a period of time the initial adoption of IFRS by investment and rate-regulated entities). As of January 1, 2015, all such deferrals by the AcSB have ended. The AcSB consists of members from a variety of backgrounds, including financial statement users, preparers, auditors and academics. Additional information about the AcSB can be found at www.frascanada.ca.

In formulating the views expressed in this letter, we discussed the draft Interpretation with our IFRS Discussion Group.[1]

[1] The IFRS Discussion Group consists of members from a variety of backgrounds similar to those of AcSB members but with a focus on financial statements prepared in accordance with IFRS.

We commend the Interpretations Committee's efforts to address the diversity in practice related to the recognition and measurement of uncertainty over income tax treatments. While we support the proposals in the draft Interpretation, our response includes several suggestions for the Interpretations Committee to consider. In particular, we encourage the Interpretations Committee to consider clarifying the interaction between IAS 10 *Events after the Reporting Period* and the draft Interpretation in terms of how new developments on uncertain income tax treatments arising after the reporting period date should be reflected at the reporting date.

Responses to the questions asked in the draft Interpretation are provided in the Appendix to this letter.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me, or, alternatively, Rebecca Villmann, Director, Accounting Standards (+1 416 204-3464 or email rvillmann@cpacanada.ca), or Davina Tam, Principal, Accounting Standards (+1 416 204-3514 or email dtam@cpacanada.ca).

Yours truly,

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APPENDIX

Question 1—Scope of the draft Interpretation
The draft Interpretation provides guidance on accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. Such uncertain tax treatments may affect taxable profit (tax loss), tax bases, tax credits or tax rates that are used to recognise and measure current or deferred tax liabilities or assets in accordance with IAS 12 *Income Taxes*. Do you agree with the proposed scope of the draft Interpretation? If not, why and what alternative do you propose?

1. We think the current description of the scope, listing the items to which the draft Interpretation applies, could lead to confusion that could be avoided by using the higher level description in paragraph BC6 of the draft Interpretation. One example of possible confusion is that certain tax credits that are not based on taxable profits (such as some found in Canada) might be interpreted to be within the scope of the draft Interpretation. Repositioning the scope paragraph along the lines of paragraph BC6 would clarify that the draft Interpretation applies only to items that are within the scope of IAS 12.

2. In addition, contrary to what is stated in paragraph BC9 of the draft Interpretation, there is diversity in practice in Canada regarding the accounting for interest and penalties. These amounts have been accounted for under either IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IAS 12, and the financial reporting effects can vary. Some entities hold the view that these amounts differ from income taxes as they are not based on taxable profits and are outside the scope of IAS 12, while others disagree. In the absence of clear guidance in this area, certain entities consider that an accounting policy choice exists. The Interpretations Committee may wish to consider this evidence of diversity in its redeliberations.

Question 2—When and how the effect of uncertainty over income tax treatments should be included in determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
The draft Interpretation requires an entity to consider whether it is probable that a taxation authority will accept an uncertain tax treatment, or group of uncertain tax treatments, that it used or plans to use in its income tax filings. If the entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the draft Interpretation requires the entity to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings.

If the entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, the draft Interpretation requires the entity to use the most likely amount or the expected value in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The method used should be the method that the entity concludes will provide the better prediction of the resolution of uncertainty.

Do you agree with the proposal in the draft Interpretation on when and how the effect of uncertainty should be included in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates? If not, why and what alternative do you propose?

3. We agree with the proposal for the reasons provided in paragraphs BC14 to BC24 of the draft Interpretation.

Question 3—Whether uncertain tax treatments should be considered collectively

The draft Interpretation requires an entity to use judgement to determine whether each uncertain tax treatment should be considered independently, or whether some uncertain tax treatments should be considered together, in order to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.

Do you agree with the proposal in the draft Interpretation on the determination of whether uncertain tax treatments should be considered collectively? If not, why and what alternative do you propose?

4. We agree with the proposal that an entity should be required to determine whether uncertain tax treatments should be considered separately, or some should be considered collectively, based on which approach provides better predictions of the resolution of the uncertainty.

Question 4—Assumptions for taxation authorities' examinations and the effect of changes in facts and circumstances

The draft Interpretation requires an entity to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when making those examinations.

The draft Interpretation also requires an entity to reassess its judgements and estimates if facts and circumstances change. For example, if an entity concludes that new information indicates that it is no longer probable that the taxation authority will accept an uncertain tax treatment, the entity should reflect this change in its accounting. The expiry of the period in which the taxation authority may examine the amounts reported to it would also be an example of a change in circumstances.

Do you agree with the proposal in the draft Interpretation on the assumptions for taxation authorities' examinations and on changes in facts and circumstances? If not, why and what alternative do you propose?

5. We agree with the proposal on an entity's assumptions regarding taxation authorities' examinations for the reason provided in paragraph BC12 of the draft Interpretation.

6. We also support the proposal that requires an entity to reassess its judgments and estimates if facts and circumstances change. However, the period in which the entity reflects the change in facts and circumstances should be determined in accordance with the principles in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (i.e., determining whether a change in facts and circumstances represents a change in accounting policy, accounting estimate or correction of an error).

7. Furthermore, we note that our IFRS Discussion Group discussed "Subsequent Events Relating to Uncertain Tax Positions" at its June 2013 meeting. The discussion focused on how a new development arising after the reporting period date should be reflected in the recognition and measurement of an uncertain tax position at the reporting date, and whether the development should be considered an adjusting or non-adjusting event in accordance with IAS 10 *Events after the Reporting Period*. The interaction between when to account for changes in facts and circumstances and new developments arising after the reporting period warrants consideration as part of the draft Interpretation. An illustrative example on the accounting for subsequent events that affect uncertain tax positions at the reporting date would be helpful to provide clarity in this area.

Question 5—Other proposals
Disclosure The draft Interpretation does not introduce any new disclosure requirements, but highlights the relevance of the existing disclosure requirements in paragraphs 122 and 125–129 of IAS 1 *Presentation of Financial Statements*, paragraph 88 of IAS 12 and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. *Transition* The draft Interpretation requires an entity to apply its requirements by recognising the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do that without using hindsight. Do you agree with the proposals in the draft Interpretation on the disclosure and the transition requirements? If not, why and what alternative do you propose?

8. We support the proposal of highlighting the relevance of existing disclosure requirements. At the same time, some users have told us that they would like to see improvements in financial

statement disclosures about management judgments and estimates relating to uncertainty over income tax treatments. Given that the purpose of an IFRIC Interpretation is to interpret existing standards rather than to provide new guidance, we suggest that the need for such improvements be considered as part of the IASB's Disclosure Initiative.

9. In regards to the transition requirements, we share the concern expressed in paragraph BC32 of the draft Interpretation about an entity's ability to achieve full retrospective application without the use of hindsight. We suggest removing the option for full retrospective application in order to minimize the possibility of inappropriate use.