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Chairman

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Mr Hans Hoogervorst
IASB Chair
7 Westferry Circus, Canary Wharf
LONDON, UK, E14 4HD

IASB Exposure Draft ED/2019/5: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Dear Hans,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned IASB Exposure Draft regarding Deferred Tax related to Assets and Liabilities arising from a Single Transaction (ED/2019/5). ANC welcomes the opportunity to comment on this topic. This letter sets out the most critical issues identified by interested stakeholders involved in ANC's due process.

From an overall perspective, we support the initiative to amend the recognition of deferred tax asset or liability on single transactions and more specifically on leases. The lack of a common accounting approach on this topic might prove detrimental to the comparability of financial statements. We are however concerned that the rules-based amendment (i) could have unintended consequences, (ii) proves unduly complex (especially when capping deferred tax liability to the amount of the deferred tax asset). We therefore fear that under the current proposed requirements, its cost could exceed the expected benefits.

The amendment could have unintended consequences

If the exposure draft mostly deals with the accounting consequences for leases and to a lesser extent for decommissioning obligations, other operations are bound to fall within its remits. Such transactions could include, without being limited to, non-monetary government grants or cash-settled share-based transactions (SBP) for which an asset is recognised. The latter would happen for instance when a cash-settled share-based payment is granted to employees from which services are received and qualify for the recognition of an asset i.e. when the remuneration granted to employees, comprising the cost of the SBP transaction that is not deductible for tax purposes, is included in the costs of the self-constructed asset. This may occur in some jurisdictions where the cost of attributing new shares to an employee in a SBP transaction has no tax effect.

To avoid unintended consequences of the amendment, we would strongly suggest that only the case at hand, namely leases, be addressed rather than opting for an all-inclusive exception to the one already stated in IAS 12.15 and IAS 12.24. This would help clarifying the amendment.

The recognition cap on deferred tax liability raises substantial conceptual and operational issues

Our concerns also relate to the practicality of the decision to limit the recognition of the deferred tax liability to the amount of the deferred tax asset on initial date (the "cap"). We understand the objective of avoiding a day-one result or an adjustment to the accounting value of the asset. Nonetheless the aforementioned "cap" raises several conceptual and operational issues. First, as throughout IAS 12 restrictions on the amount recognised only apply to deferred tax assets at the jurisdiction's level, the proposed cap at contract level is unprecedented and does not conceptually fit into the standard. Furthermore, the implementation of this "cap" could prove operationally difficult, as it would require to identify and subsequently to follow components of the deferred tax liability not accounted-for under this restriction. In addition, the proposed amendment lacks guidance on the subsequent accounting of such a cap. Should it be retained, detailed illustrative examples would have to be introduced to clarify these questions. Lastly, the asymmetry introduced by the cap contradicts the objective set in BC15(a) to align the accounting treatments of deferred tax related to leases with the general principle set in IAS 12 regardless of whether tax deductions are attributable to the asset or liability side.

Yours sincerely,

Kind regards.

Patrick de Cambourg

Patrick de CAMBOURG