



SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
www.cpc.org.br

December 12, 2014

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

RE: ED 2014/3 – Recognition of Deferred Tax Assets for Unrealized Losses

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)¹ welcomes the opportunity to respond to the ED 2014/03 – Recognition of Deferred Tax Assets for Unrealized Losses.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

We are responding to the ED's questions as follows.

Question 1 – Existence of a deductible temporary difference

The IASB proposes to confirm that decreases in the carrying amount of a fixed-rate debt instrument for which the principal is paid on maturity give rise to a deductible temporary difference if this debt instrument is measured at fair value and if its tax base remains at cost. This applies irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, ie by holding it to maturity, or whether it is probable that the issuer will pay all contractual cash flows.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

Answer:

We agree with the proposed amendment, since we believe that all temporary differences must be subject to deferred taxes in order to avoid the existence of exceptions in the IAS 12 deferred tax calculation criteria exposed in paragraph 24.

¹ The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).



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Question 2 – Recovering an asset for more than its carrying amount

The IASB proposes to clarify the extent to which an entity’s estimate of future taxable profit (paragraph 29) includes amounts from recovering assets for more than their carrying amounts.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

Answer:

We agree with the proposed amendment and inclusion of paragraph 29A, which gives more rationale to the entities to justify the estimation of future taxable profit.

Question 3 – Probable future taxable profit against which deductible temporary differences are assessed for utilization

The IASB proposes to clarify that an entity’s estimate for future taxable profit (paragraph 29) excludes tax deductions resulting from the reversal of deductible temporary differences.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

Answer:

We agree with the proposed amendment and inclusion of item i) in paragraph 29, which clearly shows the existence of taxable profit after the reversal of temporary differences.

Thus, when the entity estimate the existence of future taxable profits, the entity should compare the current temporary differences with the estimated adjusted taxable income, which should be determined by the next period taxable income excluding the reversal of temporary differences. This revised wording clarifies that if the reversal of temporary differences is not excluded they will be double counted in the projections. However, such exclusion can only be made if the estimation of future taxable income includes the tax benefits of the reversal of temporary differences. This concern is justified by the effect of potential incurred tax credit that can be recognized if the exclusion is not correctly made.

Finally, we suggest that the word “asset” be included in the caput of paragraph 29, as described in the following paragraph:

“When there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, the deferred tax **asset** is recognised to the extent that:”

Question 4 – Combined versus separate assessment

The IASB proposes to clarify that an entity assesses whether to recognize the tax effect of a deductible temporary difference as a deferred tax asset in combination with other deferred tax assets. If tax law restricts the utilization of tax losses so that an entity can only deduct tax losses against income of a specified type or specified types (eg if it can deduct capital losses only against capital gains), the entity must still assess a deferred tax asset in combination with other deferred tax assets, but only with deferred tax assets of appropriate types.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?



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Answer:

We agree with the proposed amendment, and believe that each jurisdiction should consider its own tax rules for the computation of deferred tax assets.

Question 5 – Transition

The IASB proposes to require limited retrospective application of the proposed amendments for entities already applying IFRS. This is so that restatements of the opening retained earnings or other components of equity of the earliest comparative period presented should be allowed but not required. Full retrospective application must be required for first-time adopters of IFRS.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

Answer:

We believe that for comparability purposes, only the full retrospective application should be allowed for applicants. Comparability amongst applicant should be a goal in our understanding to ease the analysis of the various financial statements users.

If you have any questions about our comments, please contact us at operacoes@cpc.org.br.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Idésio da Silva Coelho Júnior'.

Idésio da Silva Coelho Júnior
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)