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By email: [commentletters@hkiarpa.org.hk](mailto:commentletters@hkiarpa.org.hk) and by post

Mr. Simon Riley  
Acting Director  
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Hong Kong Institute of Certified Public Accountants  
37<sup>th</sup> Floor, Wu Chung House  
213 Queen's Road East  
Wanchai  
Hong Kong

Dear Mr. Riley

**Invitation to comment on IASB Exposure Draft on Recognition of Deferred Tax Assets for Unrealised Losses (Proposed Amendments to IAS 12)**

Thank you for your letter dated 27 August 2014 inviting the Association's comments on the IASB Exposure Draft on Recognition of Deferred Tax Assets for Unrealised Losses (Proposed Amendments to IAS 12). Our comments on the specific questions raised in the exposure draft are set out in the enclosed annex.

We hope you would find our comments useful. Should you have any questions, please do not hesitate to contact Ms. Caris Wan of the Secretariat at 2521 1855.

Yours sincerely

Eva Wong  
Secretary

Enc.

*Chairman* Bank of China (Hong Kong) Ltd  
*Vice Chairmen* The Hongkong and Shanghai Banking Corporation Ltd  
Standard Chartered Bank (Hong Kong) Ltd  
*Secretary* Eva Wong Mei Seong

主席 中國銀行（香港）有限公司  
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秘書 黃美嫦

## Annex

### **Responses of the Hong Kong Association of Banks (“HKAB”) to the International Accounting Standards Board’s Exposure Draft on Recognition of Deferred Tax Assets for Unrealised Losses (Proposed Amendments to IAS 12)**

#### **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 the contractual cash flows.

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

We agree with the proposed amendment, as it provides necessary clarification on when the temporary difference and deferred tax asset should be accounted for in respect of fair value changes of debt instruments measured at fair value.

However, IE39 in this Exposure Draft presents deferred tax assets and deferred tax liabilities which are not offset with each other even they are both generated from “ordinary” profit of the same tax authority. By referring to paragraph 74 of IAS 12, we suggest IASB to provide more background information in the IE to illustrate no offsetting of deferred tax assets and deferred tax liabilities is required.

#### **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?

We agree with the proposed amendment and IASB’s proposal that an entity should consider all relevant facts and circumstances when making the assessment. As noted in BC15, there are cases in which it may not be probable that an asset will be recovered for more than its carrying amount. It is suggested to provide more examples in paragraph 29A (at least incorporating all examples in BC15) to facilitate users in applying this standard.

#### **Question 3—Probable future taxable profit against which deductible temporary differences are assessed for utilisation**

The IASB proposes to clarify that an entity’s estimate of 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?

We agree with the IASB's proposal. However, the current wording of paragraph 29(a)(i) is complex and could be simplified to state that it is a two steps determination with a simple illustrative example.

**Question 4—Combined versus separate assessment**

The IASB proposes to clarify that an entity assesses whether to recognise 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 utilisation 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 the appropriate type.

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

We agree with the proposed amendment, as it clarifies how entities have to group deductible temporary differences when assessing their utilisation.

**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 be required. Full retrospective application would 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?

We agree with the proposed limited retrospective application in order to avoid undue cost and effort in applying the standard.