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OF
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Mr. Steve Ong
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<u>Exposure Draft – Deferred Tax: Recovery of Underlying Assets, Proposed amendments to IAS 12</u>

Dear Steve:

We refer to the letter dated 13 September 2010 and would like to set out our comments on the International Accounting Standards Board's Exposure Draft – Deferred Tax: Recovery of Underlying Assets, Proposed amendments to IAS 12.

Our comments on the specific questions raised in the exposure draft are attached. We would be happy to further clarify or discuss any of the above points should you so wish.

Yours sincerely,

Rita Liu
Secretary

Enc.

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Response to Specific Questions in the International Accounting Standards Board's Exposure Draft ED/2010/11
Deferred Tax: Recovery of Underlying Assets, Proposed amendments to IAS 12

Question 1 – Exception to the measurement principle

The Board proposes an exception to the principle in IAS 12 that the measurement of deferred tax liabilities and deferred tax assets should reflect the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities. The proposed exception would apply when specified underlying assets are remeasured or revalued at fair value.

Do you agree that this exception should apply when the specified underlying assets are remeasured or revalued at fair value?

Why or why not?

The International Accounting Standards Board's ("IASB") Exposure Draft ED/2010/11, "Deferred Tax: Recovery of Underlying Assets" (the "ED") proposes to add a rebuttable presumption to IAS 12 that the measurement of a deferred tax asset or liability shall reflect the tax consequences of recovery entirely through sale (rather than use) for assets measured at fair value under IAS 16, IAS 38 and IAS 40. The ED provides that the presumption is rebutted if there is clear evidence that the entity will consume the asset's economic benefits throughout the assets economic life.

We agree with the proposed exception in the form of a rebuttable presumption in the ED. Currently, investment property measured at fair value under IAS 40 may be held either for a defined or indefinite period to generate rental income with the ultimate realization of fair value through sale. The current provisions of IAS 12 are generally interpreted to require the use of a blended tax rate that incorporates both the tax rate applicable during the depreciable period and the tax rate applicable when the property is sold. Tax rates applicable to income generated during the use period as opposed to generated from sale proceeds can vary significantly, thus making the determination of the realization of value from use or sale critical in arriving at the appropriate amount of deferred taxes to record on assets with a fair value greater than the taxable basis. However, determining how an investment property's asset value will be recovered is often challenging and can result in the allocation of value between use and sale that requires significant judgment. Similar to land, which has an infinite life and the value of which is assumed to be realized through sale under SIC 21, investment property may have an indeterminate life that is not reflected by the period over which it is depreciated for accounting purposes. In some cases, investment properties exhibit characteristics of land when the fair value of the property does not decline based on usage. This may be particularly true when rental prices in a given market are not correlated with changes in property prices.

Question 2 – Scope of the exception

The Board identified that the expected manner of recovery of some underlying assets that are remeasured or revalued at fair value may be difficult and subjective to determine when deferred tax liabilities or deferred tax assets arise from:

(a) investment property that is measured using the fair value model in IAS 40

(b) property, plant and equipment or intangible assets measured using the revaluation model in IAS 16 or IAS 38

(c) investment property, property, plant and equipment or intangible assets initially measured at fair value in a business combination if the entity uses the fair value or revaluation model when subsequently measuring the underlying asset; and

(d) other underlying assets or liabilities that are measured at fair value or on a revaluation basis.

The Board proposes that the scope of the exception should include the underlying assets described in (a), (b) and (c), but not those assets or liabilities described in (d).

Do you agree with the underlying assets included within the scope of the proposed exception?

Why or why not? If not, what changes to the scope do you propose and why?

We agree with the scope of the proposed ED. While we recognize that there may be concerns that the scope is too broad, we believe that in many cases (e.g., plant & equipment) it will be clear that the entity will consume the asset's economic benefits throughout the asset's economic life and that the presumption will be overcome. We suggest that the evidence to rebut the presumption allow for some amount of residual value, which is present in most plant and equipment. Where the method of realization is not clear, the presumption will serve the purpose of reducing the complexity in determining blended tax rates that require significant judgment about future events.

Question 3 – Measurement basis used in the exception

The Board proposes that, when the exception applies, deferred tax liabilities and deferred tax assets should be measured by applying a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely through sale. This presumption would be rebutted only when an entity has clear evidence that it will consume the asset's economic benefits throughout its economic life.

Do you agree with the rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale when the exception applies?

Why or why not? If not, what measurement basis do you propose and why?

We agree with the rebuttable presumption that recovery will be through sale for the reasons discussed above. In addition, the assumption of realization through sale will generally result in recording deferred taxes only for amounts actually expected to be paid upon sale unless there is clear evidence that the asset value will be recovered through use.

Question 4 – Transition

The Board proposes that the amendments should apply retrospectively. This requirement includes retrospective restatement of all deferred tax liabilities or deferred tax assets within the scope of the proposed amendments, including those that were initially recognized in a business combination.

Do you agree with the retrospective application of the proposed amendments to IAS 12 to all deferred tax liabilities or deferred tax assets, including those that were recognized in a business combination?

Why or why not? If not, what transition method do you propose and why?

We support the retrospective application of the ED. We do not foresee any significant implementation issues.

Question 5 – Other comments

Do you have any other comments on the proposals?

We have no additional comments.