

25 November 2019

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

Dear Sirs,

**RESPONSE TO EXPOSURE DRAFT – DEFERRED TAX RELATED TO ASSETS AND LIABILITIES ARISING FROM A SINGLE TRANSACTION – PROPOSED AMENDMENTS TO IAS 12 (“ED”)**

ISCA sought views from its members on the ED above through a two-month public consultation and from the ISCA Financial Reporting Committee which includes experienced technical accounting professionals from large accounting firms, preparers and other stakeholders.

We agree that the proposed amendments to IAS 12 *Income Taxes* relating to *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* are conceptually sound and align the accounting of such transactions with the general principle in IAS 12 of recognising deferred tax for all temporary differences.

Notwithstanding this, we would like to share the following concerns regarding the proposed amendments:

*Potential challenges in applying the proposed paragraphs 22(c) and 22A of the ED*

Proposed paragraph 22A of the ED requires at initial recognition (i) the recognition of a deferred tax asset (DTA) for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised (recoverability requirement); and (ii) the recognition of a deferred tax liability (DTL) for the taxable temporary difference, up to the amount of DTA that had been recognised for the same transaction (i.e. capping of the DTL).



Paragraph BC24 of the ED explains that the initial recognition exemption (IRE) would continue to apply to the portion of the DTL exceeding the amount of DTA recognised. This is to avoid adjusting the carrying amount of the related asset by the excess DTL amount (i.e. the issue which the IRE addresses as explained in paragraph 22(c) of IAS 12).

Proposed paragraph 22A specifies the requirements for the recognition of DTA and DTL at initial recognition of the transaction. Further, paragraphs BC25 to BC28 of the ED explains the proposed amendments in relation to the reassessment of unrecognised DTA subsequent to initial recognition. We would like to highlight that proposed paragraphs 22A and 22(c) would need to clarify further on whether and how the amount of DTL continues to be capped by the corresponding amount of recognised DTA after such reassessment.

In the context of lease accounting in accordance with IFRS 16 *Leases*, the proposed amendments require entities to track and apply the requirements to individual leases in subsequent periods. In particular, the requirements could be challenging because it would be necessary to separate and track the subsequent reversal of temporary differences, which could comprise both those within and out of the scope of the IRE. Thereafter, the temporary differences would need to be accounted for accordingly by applying the other requirements, including but not limited to the recoverability assessment and capping of DTL (if required). This challenge is compounded further when applied to a portfolio of many leases.

In view of the concerns above, we would like to suggest the following:

To facilitate the application of the proposed amendments by making them easier to understand, we suggest that the amendments to IAS 12 include explanatory paragraphs in the Basis for Conclusions. For example, the explanation provided in paragraph BC24 is helpful and important to readers to fully comprehend the proposed paragraph 22A, and should be included within the body of IAS 12.

Further, we suggest that IAS 12 includes illustrative examples to provide guidance on applying the proposed amendments on initial recognition and subsequent reassessment. One area which could be clarified via this approach is the interaction between the proposed paragraphs 22A and 22(c) in subsequent periods, as highlighted above.

In addition, we would like to suggest that the Board includes practical expedients to alleviate the cost of applying the proposed amendments. Such practical expedients could include allowing the entity to perform the required assessments on the lease portfolio as a whole (as opposed to every individual lease separately).

Should you require any further clarification, please feel free to contact myself or Mr Donaphan Boey, Manager, TECHNICAL: Financial & Corporate Reporting, from ISCA via email at [jumay.lim@isca.org.sg](mailto:jumay.lim@isca.org.sg) or [donaphan.boey@isca.org.sg](mailto:donaphan.boey@isca.org.sg).

Yours faithfully,



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TECHNICAL: Financial & Corporate Reporting;  
Ethics & Specialised Industries;  
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