Accounting Standards Board of Japan (ASBJ)

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19 January 2016

Mr. Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Comment on the draft IFRIC Interpretation DI/2015/1 *Uncertainty over Income Tax Treatments*

1. The Accounting Standards Board of Japan (the "ASBJ" or "we") welcomes the opportunity to provide comments on the IFRS Interpretations Committee's ("the Interpretations Committee") draft Interpretation on Uncertainty over Income Tax Treatments (the "draft Interpretation").

2. Against the diversity observed in practice on how to recognise and measure the effect of uncertainty over income tax treatment, we support the Interpretation Committee's initiatives to publish the IFRIC Interpretation such that the diversity in practice would be lessened.

3. However, we believe that the draft Interpretation should be improved for the following areas:

   (a) Scope of the draft Interpretation;

   (b) Guidance on whether uncertain tax treatments should be considered collectively;

   (c) Disclosure requirements; and

   (d) Transitional provisions.

4. For our comments on specific question to the draft Interpretation, please refer to the Appendix-I of this letter.

5. We hope that our comments will be helpful for the IASB's future consideration. If you have any questions, please feel free to contact us.

Yours sincerely

Tomo Sekiguchi

Tomo Sekiguchi

Board Member of the ASBJ

Chairman of the Technical Committee for IFRS Implementation in the ASBJ

Appendix-I

Question 1—Scope of the draft Interpretation
The draft Interpretation provides guidance on accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. Such uncertain tax treatments may affect taxable profit (tax loss), tax bases, tax credits or tax rates that are used to recognise and measure current or deferred tax liabilities or assets in accordance with IAS 12 *Income Taxes*. Do you agree with the proposed scope of the draft Interpretation? If not, why and what alternative do you propose?

6. In general, we agree with the proposed scope of the draft Interpretation per the reasons stated in paragraphs BC5 to BC8 of the draft Interpretation.

7. However, we believe that accounting requirements for interest and penalties should be considered in parallel with those for income taxes, taking into account of the interaction of cash flows associated therewith. In addition, unlike the result of outreach conducted by the Interpretations Committee (see paragraph BC9 of the draft Interpretation), we have heard feedback from Japanese constituents that there is diversity as to accounting for interest and penalties relating to uncertainty over tax treatments. Thus, we believe that it would be helpful if the Interpretations Committee broaden the scope of the initiative to clarify these accounting treatments.

Question 2—When and how the effect of uncertainty over income tax treatments should be included in determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
The draft Interpretation requires an entity to consider whether it is probable that a taxation authority will accept an uncertain tax treatment, or group of uncertain tax treatments, that it used or plans to use in its income tax filings. If the entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the draft Interpretation requires the entity to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings. If the entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, the draft Interpretation requires the entity to use the most likely amount or the expected value in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The method used should be the method that the entity concludes will provide the better prediction of the resolution of uncertainty. Do you agree with the proposal in the draft Interpretation on when and how the effect of uncertainty should be included in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates? If not, why and what alternative do you propose?

Proposed recognition criteria

8. While there were mixed views in our discussion, we do not object to the proposal in the draft Interpretation on when the effect of uncertainty should be included in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates within the context of IAS 12 *Income Taxes*.

Proposed measurement requirements

9. We agree with the draft Interpretation that proposes to require an entity to use the most likely amount or the expected value in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, based on the entity's determination as to which method will provide the better prediction of the resolution of uncertainty. This is because we believe that reflecting the way in which the effect is expected to be resolved in measurement will contribute to

providing financial information that would help users to assess the prospects for future net cash inflows to an entity.

10. In addition, we do not believe that the ‘cumulative-probability approach’ should be used in the Interpretation, consistent with the reasons stated in paragraph BC22 to BC24 of the draft Interpretation.

Question 3—Whether uncertain tax treatments should be considered collectively
The draft Interpretation requires an entity to use judgement to determine whether each uncertain tax treatment should be considered independently, or whether some uncertain tax treatments should be considered together, in order to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. Do you agree with the proposal in the draft Interpretation on the determination of whether uncertain tax treatments should be considered collectively? If not, why and what alternative do you propose?

11. In general, we agree with the proposal in the draft Interpretation that proposes to require an entity to determine whether it should consider uncertain tax treatments individually or together, based on the approach that would provide the better predictions of the resolution of the uncertain tax treatments. This is because sometimes resolution of uncertainty over an uncertain tax treatment is expected to affect (or be affected by) other uncertain tax treatments. In such situations, we believe that considering them collectively would be more appropriate than considering them individually in providing relevant financial information that would help users to assess the prospects for future net cash inflows to an entity.

12. However, we find that the benchmark to which an entity should refer to in determining whether to make collective assessment stated in paragraph 11 of the draft Interpretation (that is, whether the collective approach provides better predictions of the resolution of the uncertainty) is not sufficiently consistent with the conditions stated in paragraph 12 of the draft Interpretation (that is, when doing so better reflects the manner in which the entity prepares and supports tax treatments or when collective assessment is consistent with the approach that the entity expects the taxation authority to take during an examination, or both).

13. Specifically, we think that the benchmark stated in paragraph 11 of the draft Interpretation is generally appropriate. In our view, the said benchmark is generally consistent with the description regarding the objective of financial reporting stated in paragraph OB 3 of the *Conceptual Framework* (that is, users need information to help them assess the prospects for future net cash inflows to an entity.), because within the context of the draft Interpretation, resolution of the uncertainty will result in future cash flows.

14. On the other hand, we think that description in paragraph 12 of the draft Interpretation seems less aligned with the objective of financial reporting. Hence, it might be helpful if the IASB redraft the paragraph so as to ensure the consistency between paragraph 11 of the draft Interpretation and the objective of financial reporting.

Question 4—Assumptions for taxation authorities' examinations and the effect of changes in facts and circumstances
The draft Interpretation requires an entity to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when making those examinations. The draft Interpretation also requires an entity to reassess its judgements and estimates if facts and circumstances change. For example, if an entity concludes that new information indicates that it is no longer probable that the taxation authority will accept an uncertain tax treatment, the entity should reflect this change in its accounting. The expiry of the period in which the taxation authority may examine the amounts reported to it would also be an example of a change in circumstances. Do you agree with the proposal in the draft Interpretation on the assumptions for taxation authorities' examinations and on changes in facts and circumstances? If not, why and what alternative do you propose?

15. We agree with the draft Interpretation that proposes to require an entity to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when making those examinations. If the use of different assumptions are required or permitted, we think that it would be difficult to ensure the consistent application

of the requirement and an entity's determination of recognition and measurement would become arbitrary.

16. We also agree with the draft Interpretation that proposes to require an entity to reassess its judgments and estimates if facts and circumstances change on the assumptions for taxation authorities' examinations and on changes in facts and circumstances, primarily because it is consistent with paragraph 34 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Question 5—Other proposals
Disclosure The draft Interpretation does not introduce any new disclosure requirements, but highlights the relevance of the existing disclosure requirements in paragraphs 122 and 125–129 of IAS 1 *Presentation of Financial Statements*, paragraph 88 of IAS 12 and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. *Transition* The draft Interpretation requires an entity to apply its requirements by recognising the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do that without using hindsight. Do you agree with the proposals in the draft Interpretation on the disclosure and the transition requirements? If not, why and what alternative do you propose?

Disclosure

17. We do not agree with the proposal in the draft Interpretation on the disclosure requirements, primarily because we believe that the proposal do not provide sufficient details as to what information should be disclosed. We suggest that the IASB reinforce the proposals such that the disclosure requirements would be more readily understandable such that they would be applied consistently in practice. Specific suggestions on relevant paragraphs in the draft Interpretation are as follows:

Paragraph 19 of the draft Interpretation (Reference to paragraph 122 of IAS 1)

18. Paragraph 19 of the draft Interpretation merely refers to an entity's judgment in determining the effects required by paragraphs 11, 14 and 16 of the draft Interpretation as the examples that an entity *might* disclose in the financial statements. Due to the significance of the judgment, we suggest that the draft Interpretation require disclosure of such judgments by stating for example that '…in accordance with paragraph 122 of IAS 1, an entity shall disclose significant judgments required by paragraphs 11, 14 and 16 of this Interpretation, when such information is considered to be material.

Paragraph 20 of the draft Interpretation (Reference to paragraphs 125-129 of IAS 1)

19. Paragraph 20 of the draft Interpretation proposes to require an entity to determine whether it should disclose information about the assumptions it makes and other estimates used, and states that 'an entity *makes* this determination in accordance with paragraphs 125-129 of IAS 1.' We are not sure why the draft Interpretation merely requires an entity *determine* whether to disclose such information instead of requiring an entity to *disclose* such information, given that paragraph 31 of IAS 1 already states that an entity need not provide a specific disclosure required by IFRS if the information resulting from that disclosure is not material.

20. Taking into account the general materiality requirements, we suggest that the IASB consider changing the requirement to state, for example, that 'based on the determinations in accordance with paragraphs 125-129 of IAS 1, an entity shall disclose information about the assumptions it makes and other estimate used in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credit and tax rates, when the information is considered to be material.'

Paragraph 21 of the draft Interpretation (Reference to paragraph 88 of IAS 12)

21. Paragraph 21 of the draft Interpretation requires an entity to determine whether to disclose the potential impact of the uncertainty over tax treatment(s) in accordance with paragraph 88 of IAS 12, and states that an entity *would* refer to IAS 37 when determining what disclosures should be given in respect of these tax-related contingencies.

22. Although we agree that IAS 37 provides useful disclosure requirements in relation to contingencies, we think the proposed requirement is unclear as to what information should be disclosed. Accordingly, we suggest that the paragraph be

redrafted to provide more specific disclosure requirements within the context of the uncertainty over tax treatment(s).

Transition (including transition for first-time adopters of IFRS)

23. In general, we agree with the proposal in the draft Interpretation on the transition requirements. However, we question if there are really cases where relevant information is available without the use of hindsight such that retrospective application of the draft Interpretation is possible. We suggest that the Interpretations Committee identify specific cases before finalising the IFRIC Interpretation.

24. In addition, if the Interpretations Committee were to retain the proposed transitional provisions as set forth in paragraphs B2 and B3 in the draft Interpretation, we believe that the benefit of these paragraphs is equally applicable to first-time adopters. Yet the Basis for Conclusions is silent on the IASB's consideration of the applicability to the first-time adopters. Accordingly, we recommend that the Interpretations Committee further consider providing the same (or similar) transitional provisions to the first-time adopters before finalising the draft Interpretation.