FRC MAURITIUS
FINANCIAL REPORTING COUNCIL
(Established under the Financial Reporting Act 2004)

FRC/Adm/133

12 December 2014

The Director
International Accounting Standards Board
30 Cannon Street
EC4M 6XH
London
UNITED KINGDOM

Dear Sir

Exposure Draft on : Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12)

The Financial Reporting Council (Mauritius) has one of its main functions to ensure co-ordination and cooperation with international institutions in the development and enforcement of financial reporting, accounting and auditing standards.

The FRC is pleased to respond to the International Accounting Standards Board's (IASB's) Exposure Draft, *Recognition of deferred tax assets for unrealised losses*. The comments and responses to the specific questions are included in the following pages.

For any further clarifications, please contact us at **frc.mauritius@intnet.mu**.

Yours faithfully

Financial Reporting Council FRC

S. Naiken
Chief Executive Officer

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?

Comment to Question 1

Yes. Where fair value of asset does not affect the taxable profit in the period of the valuation, tax base must be at cost so that deferred tax on the temporary can be accounted.
Also, the proposed amendments brings consistency in line with the tax treatment of the other side of the transaction where the buyer of the instrument sold at its fair value , that is above its cost price, suffers a tax liability on the realized gain when the instrument reaches its maturity.

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?

Comment to Question 2

Yes. The clarification is important because on reversal of deductible temporary difference, the deferred tax has to be eliminated from the balance sheet.
Also, through economic operations of the assets the probable inflows of taxable benefits may exceed the carrying amount of the assets.

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?

Comment to Question 3

Yes. Otherwise the estimate will be distorted through double counting.

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?

Comment to Question 4

Yes. Categorising deductible temporary differences in a combined basis can make it difficult to determine whether taxable profits are sufficient to utilise deductible temporary differences.

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?

Comment to Question 5

Yes, this will be less costly to implement. However, full retrospective application for first time adopters of IFRS is required for consistency.