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Organización Internacional de Comisiones de Valores  
International Organisation of Securities Commissions  
Organisation internationale des commissions de valeurs  
Organizaç o Internacional das Comiss es de Valore

September 8, 2009

Exposure Draft: Income Tax  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

**RE: ED: Income Tax**

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Exposure Draft on Income Tax (the ED or the Exposure Draft).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

We present below our general observations regarding the proposed approach set out in the ED. We did not attempt to respond to the specific questions in the ED.

### **General Observation**

As a general matter, we believe the Board should carefully consider whether to continue with this proposal for two reasons. First, although finalization of the ED as an IFRS would result in convergence in some areas, there will continue to be differences between IFRS and U.S. GAAP in the accounting for income taxes. Second, we are concerned that the proposed revisions may not represent a substantial enough improvement over the existing requirements in IAS 12, *Income Taxes* to justify the efforts that will be required of all constituents to adopt

Calle Oquendo 12  
28006 Madrid  
ESPAÑA  
Tel.: (34.91) 417.55.49 • Fax:  
(34.91) 555.93.68  
mail@oicv.iosco.org  
• www.iosco.org

the changes. We are concerned that, in some areas, the ED may result in more complex accounting and/or less useful information as compared to IAS 12. Specifically, we question the following areas:


- **Allocation of tax to components of comprehensive income and equity:** While we understand the Board's concern that the approach under IAS 12 may be difficult or counter-intuitive in certain instances, we are not convinced that the proposed approach results in an improvement to financial reporting. In fact, as the Board notes in paragraph BC97, the proposed approach is complex and may also be counter-intuitive. While we acknowledge that the proposed approach would result in convergence with U.S. GAAP, we are concerned that the ED is merely converging, rather than converging to an improved approach.
- **Definition of tax basis:** The ED's definition of "tax basis" assumes that the asset (liability) in question would be sold (settled). However, this assumption may not always be consistent with management's expectations or its ultimate actions. Further, this assumption may be inconsistent with the manner in which the tax rate applied to this tax basis is determined, as the tax rate may incorporate management's expectations regarding the asset (liability).
- **Initial recognition exception:** We are concerned that the elimination of the initial recognition exception may result in additional complexity, particularly as it relates to the separate recognition of an asset (liability) excluding entity-specific tax effects and any entity-specific tax advantages / disadvantages. Further, we believe that the resulting discount / premium may be difficult for investors to understand, thereby impairing the usefulness of this information.
- **Uncertain tax positions:** We are concerned that resolution of this issue prior to the finalization of the revisions to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* may result in inconsistencies in the overall accounting approach for uncertainties. More generally, if the IASB were to establish a framework to determine the circumstances in which a probability-weighted average approach should be used and those in which a best-estimate approach should be used, this would help ensure consistent models are developed across standards.
- **Classification of deferred tax assets and liabilities:** The ED requires classification of deferred tax assets and liabilities as current or non-current based on the financial statement classification of the related non-tax asset or liability. However, the classification of the related non-tax asset or liability may be unrelated to the expected timing of the reversal of the temporary difference. It appears that consideration of this expected timing would be more consistent with the notions of current and non-current in IAS 1, *Presentation of Financial Statements*.
- **Other areas:** IAS 12 is currently silent in areas such as the accounting for deductions that do not form part of a tax basis ("special deductions") and the classification of interest and penalties. In the former case, the ED remains silent and in the latter, the ED permits entities to elect their own classification policy. Accordingly, it is unclear how the ED results in improved financial reporting in these areas, as compared to IAS 12.

We recommend that if this project remains a priority for the Board, when weighed against its other priorities, the Board should issue a joint Exposure Draft with the FASB that results in true convergence and substantial improvement to the accounting for income taxes.

\* \* \* \*

We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,



Julie A. Erhardt

Chair

IOSCO Standing Committee No. 1