IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
UK

January 19, 2016

Dear Mr. Upton,

Draft IFRIC Interpretation DI/2015/1: Uncertainty over Income Tax Treatments

We welcome the opportunity to comment on the IFRS Interpretations Committee (IFRIC) Exposure Draft IFRIC *Interpretation DI/2015/1: Uncertainty over Income Tax Treatments* (the interpretation or the DI).

While we support the IFRS Interpretations Committee's efforts to eliminate diversity in practice and to provide guidance for the accounting for income tax in circumstances of uncertainty about the application of a tax law, we believe that the interpretation should not be finalised in its present form since it does not deal with all the related issues.

Our responses to the individual questions posed in the ED are set out in Appendix 1.

Yours sincerely,

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Patrice MARTEAU Chairman	François SOULMAGNON Director General	Agnès LEPINAY Director of economic and financial affairs

Question 1 – Scope of the draft Interpretation

We disagree with the proposed scope of the Interpretation as we consider that it is too restricted. It should be expanded to cover all issues related to uncertain tax positions, including interest and penalties, as well as levies, which are outside the scope of IAS 12 but bear certain similarities to income taxes.

Tax authorities and tax departments within entities investigate tax positions as a whole and the implications are not always restricted to income tax. As a consequence, there should be an overall consistency in the accounting treatment of all matters which fall within the mandate of the tax authorities.

We believe that levies are similar to income tax as they are both enacted by law, the counterparty is the Government and payments and filings for levies are also subject to assessment by the taxation authority. As a consequence, it is not logical to have a different approach for the accounting for uncertainty over tax positions related to income taxes and those related to levies.

We have already suggested that the Board should carry out a more broadly based project of this type. You will find below an extract from our comment letter in response to the DI on IFRIC 21 Levies:

"The obligatory and constraining nature of the relationship between a public authority and a reporting entity is very different from that which exists between the entity and most other participants in the markets in which it operates. We think therefore that, rather than publish the DI as it stands, it would be more useful for the Board to consider the particular nature of the fund-raising activities of the public authorities and how the entity should account for these in a comprehensive project covering all forms of taxes and quasi-taxes, including income taxes".

Moreover, in order to provide a global and consistent approach on uncertainty over tax treatment we believe that a clarification of the accounting for interest and penalties should be included in the scope of the DI.

Finally, we would emphasise that the issue that was referred to the IFRS Interpretations Committee was a request for clarification on the recognition of an asset when there are uncertainties as to how tax laws should be applied in a particular transaction or circumstance. The requested focused on whether IAS 12 or IAS 37 should be applied to recognize an asset or a contingent asset. We think that the DI should have addressed clearly the specific issue regarding the recognition of an asset when tax laws require an entity to make an immediate payment in respect of a disputed amount and that the IFRS Interpretations Committee should have explained the conclusion it reached and the arguments which led to the development of the DI.

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

We agree with the principle of reflecting in the financial statements the uncertainty over a tax position in a situation in which the acceptability of a tax treatment by the tax authority is unclear.
However, we believe that the DI should be less categorical about the mechanism the entity must use to reflect that uncertainty. As was stated in the paragraph 27 of the Agenda Paper of the January 2014 meeting, diversity in practice usually comes from the way the uncertain tax positions are measured.

We think that the IFRS Interpretation Committee should focus on bringing clarity on the measurement method without giving specific guidance on the accounting mechanism. Although some might say that to adjust directly the amount of current or deferred tax is more pure from a conceptual point of view, we do believe that in some cases this will be more complex to implement since uncertain tax positions are today separately monitored and accounted for by the entities as an additional layer. It therefore seems easier (for the purposes of the current period and for the subsequent follow-up) to compute both current and deferred taxes based on the tax filing and to "add a top level adjustment" to integrate the probable risk into the financial statements. This would facilitate control and monitoring of the amount by the entity.

In respect of the amount to recognise, we agree with the principle that an entity should use the method that it concludes will provide the better prediction of the resolution of the uncertainty. We therefore believe that the amount recognised must be <u>the best estimate,</u> which <u>could</u> be based on a probably-weighted amount in a range of possible outcomes or the single most likely amount, but in any event the primary requirement remains the use of judgement by the management of the entity, supplemented by reports from independent experts in some cases (as IAS 37 paragraph 38 specifies).

Concerning the probability threshold, we acknowledge that "probable" is the one used today in IAS 12 for the purpose of the recognition of deferred tax assets. We also note that no threshold is used for the recognition of deferred tax liabilities. Finally, considering other standards such as IAS 37, we also note that different thresholds are used for liabilities (probable) and assets (virtually certain). Although we believe that it is not within the mandate of the Interpretation Committee to question current thresholds within the whole body of IFRS, we think that it would be useful if the IASB did further work on these differences.

Question 3 - Whether uncertain tax treatments should be considered collectively

We agree that an entity should use judgement to determine whether each uncertain tax treatment should be considered independently or collectively.

Question 4 - Assumptions for taxation authorities' examinations and the effect of changes in facts and circumstances

We agree with the assumptions that a taxation authority will examine any amount reported to it and will have full knowledge of all relevant information when making those examinations as long as the right to examine tax fillings continues to exist. We also agree with the requirement to consider any changes in facts and circumstances in the determination of its tax uncertainty.

Question 5 – Other proposals

We agree with the disclosure guidance and the transition requirements.